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PROCEEDINGS
OF
THE STANDING COMMITTEE
OF THE
HOUSE OF COMMONS
ON
BANKING AND COMMERCE

Bill No. 7, Industrial Development Bank
Bill No. 91, Bank Act
Bill No. 109, Alberta Provincial Bank
Bill No. 131, Quebec Savings Banks Act
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VOLUME II

FIFTH SESSION OF THE NINETEENTH
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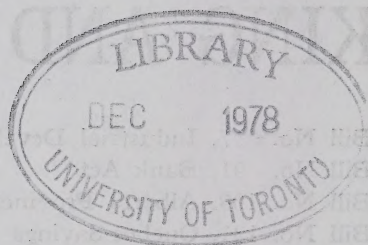
THE STANDING COMMITTEE

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BANKING AND COMMERCE



THE NATIONAL TRADING DEVELOPMENT BANK
THE BANK OF CANADA
THE BANK OF MONTREAL
THE BANK OF QUEBEC
THE BANK OF NEW SCOTIA
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THE BANK OF NEW SCOTIA

VOLUME II

FIFTH SESSION OF THE NINETEENTH
PARLIAMENT OF CANADA



July 7, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: As announced some days ago, we set aside to-day for the purpose of considering section 55, the functions of the bank auditor, and we have present Mr. Clarkson. I would ask Mr. Clarkson to please come to the platform. I am going to ask Mr. Tompkins to make a brief introduction of Mr. Clarkson so far as it may bear upon his functions.

Mr. TOMPKINS: Mr. Chairman, it is scarcely necessary for me to introduce Mr. Clarkson to the committee; but for the benefit of those members who are not aware of his position and qualifications, I might say that he is a member of the chartered accounting firm of Clarkson, Gordon, Dilworth and Nash of Toronto and also of the firm of E. R. C. Clarkson and Sons of Toronto. Mr. Clarkson has acted at various times as shareholders' auditor of banks under section 55; and he has also had the distinction, if I might so term it, of having acted as liquidator of four different banks, namely the Monarch Bank of Canada, the Sovereign Bank of Canada, the Farmers' Bank of Canada and the Home Bank of Canada. Those three banks last named are mentioned in exhibit number 5 at pages 110 to 112 of the proceedings and evidence of this committee this year.

The CHAIRMAN: Thank you, Mr. Tompkins. Mr. Graham has the floor.

Mr. G. T. CLARKSON, C.A., called:

By Mr. Graham:

Q. Mr. Clarkson, your firm is, as Mr. Tompkins has told us, Clarkson, Gordon, Dilworth and Nash?—A. Yes.

Q. And is it in the capacity of a member of the firm or as an individual that you act as shareholder's auditor of one or two banks?—A. No, in a personal capacity, drawing my assistants from the firm.

Q. From the firm?—A. Yes.

Q. What bank is it that you are shareholders' auditor of at the present time?—A. The Bank of Commerce and the Bank of Toronto.

Q. For the information of the committee, what other banks have you acted for in that capacity in the past?—A. I am a co-auditor, but it is not my year, in the Bank of Nova Scotia—at the present time. In the past I audited the Metropolitan, the Standard, the Dominion, and my partner the Imperial.

Q. So that you can safely be said, Mr. Clarkson, to have had a very wide experience?—A. Well, I have had some.

Q. In the duties assigned to a shareholders' auditor?—A. That is right.

Q. The Act, as you know, calls for the selection by the shareholders of two auditors.—A. That is right.

Q. Who is your co-auditor of the Bank of Toronto and the Bank of Commerce at the present time?—A. Mr. Glendinning in the Bank of Toronto and Mr. Shepherd in the Bank of Commerce.

Q. Mr. Glendinning?—A. Yes—in the Bank of Toronto.

Q. In both banks?—A. No. I am principal auditor for the Bank of Toronto.

Q. Yes.—A. At the present time my associate is Mr. Glendinning in the Bank of Toronto. I am an associate auditor in the Bank of Nova Scotia. I am not the auditor this year. Somebody else is there in my place. I am associate auditor in the Bank of Commerce,—associate auditor for this year.

Q. It is wise maybe to put the facts on record because it is not only members of the committee who may wish to follow this, Mr. Chairman, but also those who are interested in the work of the committee. Under the Act those two auditors must be chosen from different firms of auditors?—A. That is right.

Q. Yes. And your term is restricted to a period of two years?—A. That is as associate auditor.

Q. I beg your pardon?—A. As associate auditor.

Q. Yes.—A. As principal auditor I can be elected from year to year without interruption if the shareholders choose to elect me; but as associate auditor, they change every two years.

Q. And there must be a period of two years elapse between the employment of the same auditor?—A. That is the associate auditor.

Q. I am a little puzzled by that statement with regard to the principal auditor. I do not notice any distinction in the Act, Mr. Clarkson, with regard to the principal and associate auditors.—A. There is a provision in there. I have not got it here. I have been handed the Act. It says; "The shareholders shall at each annual meeting—

Mr. NOSEWORTHY: Would you mind telling us what page that is?

Mr. GRAHAM: Subsection 5.

The WITNESS: Subsection 5 of section 55. It reads:

The shareholders shall at each annual general meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank, but if the same two persons, or members respectively of the same two firms have been appointed for two years in succession to audit the affairs of any one bank, one such person or any member of one such firm shall not be again appointed to audit the affairs of such bank during the period of two years next following the term for which he was last appointed.

By Mr. Graham:

Q. Yes.—A. That results in one so-called permanent auditor or continuous auditor and the other alternate.

Q. Putting it in another way, it results in a fresh auditor having access to the books on behalf of the shareholders every two years?—A. That is what was intended, yes.

Q. And that is what happens in practice?—A. That is what happens.

Q. Just so that we may know, how long has your firm been established? I am speaking now of Clarkson, Gordon Dilworth and Nash.—A. The original firm? Eighty years.

Q. Eighty years?—A. Yes.

Q. I assume that we all know it, but you can vouch for the fact that it has a very large business in the auditing field?—A. We have a fair business, yes; an extensive business.

Q. I notice Mr. Tompkins has told us of your association with the liquidation of certain banks. That, too, would give you a very great insight into the method of management and the safeguards that have to be adopted in the banking business, I take it that would follow through that?—A. Well, the liquidation of a bank gives you a kind of experience that you do not get from the audit. It is something entirely different.

Q. If I recall it correctly, Mr. Tompkins mentioned the Monarch Bank.—
A. That was incorporated and a certain number of shares subscribed for which were insufficient to get its certificate—to commence to operate—and it had to be wound up.

Q. It actually never commenced business?—A. It never commenced business.

Q. No. Then there is the Sovereign. Could you give us this in chronological order?—A. Then there was the Farmers' Bank.

Q. The Farmers' Bank?—A. Yes.

Q. What year did that fall?—A. Well, you have got me. 1910, was it?

Mr. TOMPKINS: In 1910.

The WITNESS: In 1910.

By Mr. Graham:

Q. Yes?—A. That is the Farmers' Bank.

Q. Yes?—A. Then there is the Sovereign.

Mr. TOMPKINS: The Sovereign situation came about in 1908. If I may interject, Mr. Graham, if you will refer to page 112 of the proceedings of the committee you will see that the note with reference to the Sovereign Bank of Canada explains the situation rather fully. I do not know whether it is worth while to read it at this time.

The CHAIRMAN: We do not need to read it, Mr. Graham.

Mr. GRAHAM: I beg your pardon, Mr. Chairman?

The CHAIRMAN: We do not need to read it.

Mr. GRAHAM: No, except for this: I should like the chronological story on the record. Likely the average reader will not refer to that.

The CHAIRMAN: Well, it is on the record already.

Mr. GRAHAM: Yes. But I mean they would not refer to that.

Mr. TOMPKINS: The Sovereign Bank eventually went into liquidation. Its affairs were placed in liquidation in 1914.

Mr. GRAHAM: That is the Sovereign?

Mr. TOMPKINS: That is the Sovereign.

Mr. GRAHAM: Yes.

Mr. TOMPKINS: But that was under rather exceptional circumstances; because in 1908, when its troubles developed, as explained in the note I mentioned, certain other banks took over its branches and assumed its liabilities to the depositors. But as I say, the footnote sets out the position fully.

By Mr. Graham:

Q. I am trying to get your experience. It was in 1914 that you came into the Sovereign picture?—A. No. I came in before that. In 1908 it got into trouble, and I think somewhere around 1910 or 1911 or at a time after the assisting banks, as they were called, had taken over its branches and liabilities, the Sovereign Bank remained a debtor to the other banks to the extent of, I should say, \$8,000,000, \$9,000,000 or perhaps \$10,000,000, and the Sovereign Bank still retained ownership of a railway and a lot of assets of various kinds—slow assets. So they formed a corporation called "International Assets", and they turned those remaining assets which the bank had retained over to International Assets and it issued bonds for the obligations still remaining owing to the other banks. I was a trustee under that bond mortgage, and had an interest in watching the realization and assisting in the realization of those assets until they were exhausted. In the meantime International Assets also performed another function. Many stockholders of the Sovereign Bank subscribed for shares in International Assets and the monies they paid into International Assets thereon

were paid over in satisfaction of the double liability upon the Sovereign Bank shares held by such subscribers; in that way, the debt of International Assets to the assisting banks was partly reduced. A considerable amount, about \$2,000,000, I think, of double liability on Sovereign Bank shares still remained unpaid thereafter and the bank was put into liquidation and I became liquidator of it in 1914 in order to enforce collection of the same.

Q. It will be interesting I think, Mr. Clarkson, to observe that in the Sovereign Bank failure the shareholders suffered a loss?—A. The shareholders suffered a loss and the banks suffered a loss.

Q. And did the depositors?—A. No.

Q. The depositors did not suffer a loss?—A. No, because the deposits were assumed by the assisting banks; in the end, however, the banks lost \$400,000 to \$500,000 in that connection.

Q. In order to protect the depositors' position?—A. That is right.

Q. And the depositors in the Sovereign Bank did not suffer any direct loss?—A. They did not.

Q. And the next bank I think you mentioned was the Home Bank?—A. Well, the position in connection with the Home Bank was that the assets of the Bank produced sufficient to pay all of the privileged claims against it except about \$200,000 still owing to the Province of Ontario whose claim was deferred in order to enable a dividend to be paid to the depositors of the Bank. As a result the depositors got a dividend of 25 per cent from realization of the assets of the bank. The still remaining assets are not worth \$200,000 or sufficient to pay off the claim of the Ontario government; consequently the assets of the bank including the double liability, produced for the depositors 25 per cent of their claims. The Ontario government will probably lose between \$100,000 and \$150,000 of its privileged claim. The shareholders lost all that they put into the bank and the double liability which they had to pay on its shares.

Q. Are there any other banks not mentioned?—A. There was the Home Bank, that is the one I was speaking about—no, there are no others.

Q. What about the Farmers?—A. Oh, pardon me; the Farmers' Bank after a settlement of the privileged claims against it paid nothing to its depositors.

Q. Nothing?—A. No.

Q. When did that occur?—A. 1910.

Q. And the Home was in what year?—A. 1923.

Q. The Home Bank, it has been suggested to me by Mr. McIlraith here, is significant of something which I think should be put on the record of the committee. In the Home Bank case the dominion government had to, under pressure, give some assistance?—A. The Dominion government contributed 35 per cent of their claims to certain classes of depositors. My recollection is that excluded from such classes were the claims of corporations, associations and partnerships; it was remaining depositors who got the 35 per cent.

Q. But in the Farmers' Bank, the completed picture, the shareholders lost everything including the double liability?—A. Yes.

Q. And the depositors got nothing?—A. That is right.

Q. So the Farmers' Bank was a complete total failure, a loss to all concerned?—A. That is right.

Q. Do you mean except for note holders?—A. I beg your pardon, the circulation was paid in full.

Q. But in the case of the classes mentioned, the shareholders and the depositors, they suffered a complete loss?—A. In the Farmers' Bank?

Q. Yes.—A. That is right.

Q. Then legislation was set up to safeguard the shareholders' position by the appointment of a shareholders' auditor. I assume this came about through

Canada's experience of these various failures of which you have spoken and in connection with which you acted as liquidator?—A. Well, you may assume that.

Q. I think that is the case because I note the time of the legislation as at present formed providing for shareholders' auditors became law in 1923?—A. That is right.

Q. I notice that you mentioned that in 1922 you acted for the Home Bank?

Mr. TOMPKINS: Mr. Graham, the original provision for shareholders' auditor was in 1913 but the section was amended in a good many respects in 1923.

Mr. GRAHAM: That is what I am saying. The legislation we now have as a safeguard was completed and made law in 1923.

Mr. TOMPKINS: Exactly.

Mr. GRAHAM: And the Inspector General's position was created in 1924, I think that is right.

Mr. TOMPKINS: That is right.

By Mr. Graham:

Q. Would you care to pass an opinion, Mr. Clarkson, on the underlying causes, if there were any, which were general to all of these failures which you have mentioned; what caused the banks in your experience to endanger their position and eventually fail?—A. I had better take them separately.

Q. Yes.—A. The Farmers' Bank failed because of its loans to and investment in the Keeley Mine, and the making of other speculative loans. The Sovereign Bank failed because of loans made against securities of the Alaskan Central Railway and of the Chicago-Milwaukee Electric Railway and against other securities, the values of which became impaired. In the case of the Home Bank it was advances to real estate corporations, directly and indirectly, which were largely responsible for its failure.

Q. In other words, the making of loans that were not sound?—A. The making of loans and investments which proved to be unsound.

Q. I take it too that it follows—if that is the case, with these banks we are speaking about—that in your position as liquidator, you found that, in their statements, they evaluated such amounts at actually more than they were worth?—A. That is right, they were over-valued.

Q. They were over-valued?—A. Yes.

Q. Is that true in connection with every one of these banks?—A. That is true in relation to the facts, yes.

Q. Then it follows, I assume, that this is a very important feature in respect of banking, to see that they properly evaluate their assets?

Mr. JACKMAN: You would not say that that was the chief cause of such failures—that such failures were due to a lack of wisdom in making the loans to and investment in the Keeley mine and because of advances to and against the shares in the other corporations of the type you have named.

The WITNESS: I am merely stating the facts as they were found to be. Such failures took place by reason of unsound loans and investments, and such loans and investments were over-valued in the statements of such banks.

By Mr. Graham:

Q. In each of these cases is it a fact that until it was ascertained and the banks were forced into liquidation each of these assets you have mentioned were carried in the final stages at a heavy increase over their true value?—A. That is right.

By Mr. Noseworthy:

Q. Had they been carried in the books of the bank at a much lower valuation would that in your opinion have avoided the bankruptcy?—A. In the operations of the bank at an earlier time.

Q. It would not necessarily have prevented their collapse?—A. One would have to relate that, of course, to each specific case. In the Keeley Mine it was the speculative nature of the venture into which they kept pouring money until they had \$2,000,000 invested. In our efforts to sell the mine we could not at first get any bid at all for it. Finally, we got one for \$100,000 and accepted it. Later on, after a large amount of money had been spent upon the property ore was struck. The loan to and investment of the bank in the Keeley Mine was a purely speculative one. In the case of the Sovereign Bank it loaned to brokerage houses large sums of money upon the security and shares of Milwaukee Electric Railway and on the Alaska Central Railway hoping no doubt that it would be able to obtain the return of such loans from the sale of such securities, which later went sour. As far as the Home Bank was concerned, the loans to real estate companies (directly and indirectly) in amounts increasing from time to time ultimately caused its failure. How soon such loans had they been questioned, would have affected the position of each of such banks would have depended upon when the values of these were so questioned—

By Mr. Graham:

Q. Mr. Clarkson, you were not connected as liquidator with the Ontario bank?—A. No.

Q. To get down to your duties, Mr. Clarkson, would you describe briefly to the committee your interpretation of the duties cast upon you by the appointment of yourself as shareholders' auditor?—A. You want it only in very general terms? You do not want me to get down to details?

Q. No, general terms.—A. My conception of the duties of an auditor are twofold, at least; first of all to see that the assets of a bank are not over-valued in its statements—so far as the public are concerned—and second, to see that they are not under-valued or over-valued so far as the shareholders are concerned, and in relation thereto that the profits of the bank are fairly stated. That is the duty of a bank auditor as I see it.

Q. Perhaps we will ask for a little elaboration of that. You say you consider it one of your duties to see that the assets of the bank are neither under-valued or over-valued?—A. Within the realm of opinion.

Q. Within the realm of your opinion, yes?—A. Within the realm of my opinion, yes, that is it eventually.

Q. Would you explain why there is the necessity against undervaluation? Why does that strike you as one of your duties to see that they are not under-valued?—A. Because if you under-value the assets unduly then you do not provide a fair statement to the shareholders to indicate what their equity in the institution is.

Q. In other words, using the wording of the Act, it would not be a true statement?—A. Not a true statement.

Q. You consider it is necessary to not under-value in order that a true statement may be presented by you to the shareholders of that bank?—A. That is right.

Q. What about over-valuation?—A. The Act requires that the assets shall be valued not above market or with estimated loss provided for. I should like to clear up something here. The main assets of a bank are its loans and its investments. The value of those loans is a matter of opinion from time to time—from month to month—from year to year, and depending on conditions of business. The value of its investments are subject to market fluctuation. There—

fore, in dealing with the assets of a bank and trying to present a fair statement of them, the auditor forms his opinion; he goes over the individual loans and forms his opinion of their value, and where he thinks any reserve should be provided in respect of them he takes the same into account. As far as investments are concerned he compares the cost of those investments or the book value of them with market values and sees that they are not included in the bank's statement at more than such market values. When the statement is presented it is supposed to represent the fair realizable value of the assets of the bank after provision of a factor of safety against contingencies.

I should like to make sure that in the above connection this committee understands what "inside reserves" mean. Inside reserves do not mean the reserves as recorded on the books on the bank. The inside reserves of a bank is the difference between the fair realizable value of its assets, and the value at which such assets are shown at in its public statement.

By Mr. Jackman:

Q. You said the difference between the fair value and the value as shown in the public statement. You mean—A. Audited statement.

Q. The book value, not the statement made public?—A. No, I mean the public statement.

Q. The one that is printed?—A. Absolutely.

By Mr. Slaght:

Q. May we have that repeated? With the interruption I missed it.—A. What I am trying to make clear here is that book reserves and book appropriations on the records of a bank do not constitute its inner reserves—for a variety of reasons. I will go into the matter if you wish me to.

By Mr. Graham:

Q. We would be glad if you would.—A. Suppose a bank has a loan of \$500,000 which it considers to be wholly bad. It may, if it desires, write it off completely when no value for it will be shown on the books of the bank, and no reserve will be shown on such books in respect of it. Treated another way the bank can continue to carry such loan on its books at \$500,000 but set up a reserve of equal amount against it; under these conditions you may in one instance have nothing shown on the books for the loan, while in the other the loan will be on the books for \$500,000 with a reserve of \$500,000 against it. Both mean the same in ultimate result. Again, the bank may carry the loan at \$500,000 and have a reserve of \$500,000 against it but the loan be worth \$250,000. In such a case the inner reserve in connection with that loan would be \$250,000, or the value behind the reserve.

Then, every bank has a large volume of loans, say, \$40,000,000, \$50,000,000 or \$60,000,000, in respect of which there is an unknown loss factor, as it knows that it will not be able to collect the whole of such loans. What it would fail to collect on such loans is dependent upon conditions of business from time to time and those in prospect. So I say to you that if included in the assets of a bank is a security for \$100,000 which the bank believes to be worthless it may, if it desires, write it off when it will have no value shown on its books with regard to it; in another case it continues to carry the security at \$100,000 but reserves \$100,000 against it. Then if the security shall later become worth \$50,000 the inside reserve held by the bank in respect of it will be \$50,000. If the security shall later become worth \$100,000, then the inside reserve which the bank will hold in respect of it will be \$100,000. I am trying to make clear that the inside reserve of a bank is the excess of value over the amount at which its assets are carried in its public statement. It is not the book figures of such reserves. So

I say to you that when you come down to facts the inside reserves of a bank are comprised of the difference between the fair realizable value of its assets and the amount at which they are shown in its public statement; the difference between those two is the margin or factor of safety which constitutes the inside fund of the bank.

Q. I would take it that you, at least, as one of the shareholders' auditors at present employed by the Bank of Toronto and the Bank of Commerce, consider it one of the chief duties of the shareholders' auditors to pass judgment on the real valuation of the assets?—A. You cannot certify the statement unless you do.

Q. It would not be a true statement unless you did?—A. Absolutely not, in my opinion.

Q. I did not intend to go into this quite so quickly but you have started and I would be glad if you would complete the picture. Using your experience as an auditor and liquidator, and your general knowledge, and giving us the benefit of your experience, you notice you have used the term, "Inside reserve"?—A. Yes.

Q. They are not specifically disclosed on the statement presented to the public?—A. They are reflected in the statement by deduction from the value of assets. That is right.

By Mr. Kinley:

Q. From the face value of the assets?—A. I do not want to evade your question. You have loans valued as say worth \$50,000,000 and we will say your inner reserve is \$3,000,000; these such loans will appear on the public statement at \$47,000,000. That is why I say that such reserves are given effect to in the public statement by deduction.

Q. From the face value?—A. Yes.

By Mr. Graham:

Q. Perhaps we had better make that clear. That inner or inside reserve, as you call it, is created by the considered devaluation of the assets appearing on the books to what is considered to be their market or true value. Is that not correct?—A. Well, again I wish to explain. You see, Mr. Graham, you are asking how they are accumulated?

Q. Yes. I think that is one of the mysteries that the committee do not understand.—A. How they are accumulated is in two ways. Going back years ago, we will say ten or fifteen years ago, when the bank was valuing its assets for statement purposes, let us say that it appropriated \$200,000 against expected losses in its then loans. Such appropriation was applied in reduction of its earnings for such year and carried to the credit of its appropriation account. Five years after that, perhaps ten years after that, such \$200,000 may be recovered in full, following which—if not taken into profits—it leaves \$200,000 in the appropriation account as a cushion against possible losses in loans and securities generally.

Q. You mean it may have been paid?—A. Yes, paid; when, unless the recovery is treated as a profit obtained in the year in which it is realized, it results in leaving a \$200,000 reserve account on the books of the bank.

Q. Yes?—A. In addition to that, in each year under review—from time to time—over the period of operations of the bank, debts are written off as worthless and then later recovered. Who so recovered, if the bank has a sufficient inner reserve, such recovery goes into the profits of the bank. If it has not a sufficient reserve the amount goes to the credit of a reserve account on the books of the bank. Thus, progressively, and because Canadian banks, on the average, have been operating for seventy-five years, reserve accounts have been accumulated.

Such reserves are then deducted from the book value of the bank's assets for its statement purposes. The difference between the amount of such account so deducted from the amount of the bank's assets, and the actual amount required to reduce the book value of such assets to their fair realizable value constitutes the inner reserves of the bank. Suppose such reserves were \$5,000,000 and the amount required to cover the known and expected losses was \$2,000,000, the inner reserves of the bank would be \$3,000,000, which would be its margin of safety against unknown losses and fluctuations in the value of its securities.

Q. I presume it is true to say that the banking business is slightly different from, say, a dealer in perishable goods?—A. Well, in some ways and not in others.

Q. Well, a good debt may go bad?—A. And a bad debt may come good.

Q. That is my point. There is never any complete cut-off. In some cases it is so humanly certain that the borrower cannot pay that it is part of the bank's history and is written off as an uncollectable debt. But in the great number of cases, I take it that human judgment is not able to completely see the future, and items that are considered poor or bad loans are recovered. That is true?—A. Mr. Graham, it comes down to this: a bank can operate and make loans so that it has no losses, if it lends, for instance, on gold only.

Mr. SLAGHT: Or Dominion of Canada securities.

The WITNESS: As long as the public has got confidence in the Dominion of Canada. But if it is to perform what we might consider its proper function, the proper function of Canadian banking, it has to make losses. It cannot support industry unless it grants credit on a basis which has a risk attached to it. Therefore the amount of the losses that the bank makes each year is dependent on the liberality of the credit which it grants. If you want to tie it down so that it cannot make any losses, then it does not need any reserve fund. On the other hand, if you want it to support agriculture and if you want it to support industry, you have got to do two things. You have got to let it have sufficient profits so as to take care of losses, and at the same time leave a moderate return to its shareholders. If you do not do that, then it pulls in its credits. It has got to pull them in. Then you have got to have a factor of safety to take care of the ups and downs, the fluctuations of trade, markets and things of that kind. If you have not got that, then you have got to pull in your credits.

By Mr. Fraser (Northumberland):

Q. Like any other business?—A. It is no different from the corner grocery in a great many respects. But there seems to be a mystery in a great many people's minds about banking when there is no mystery at all about it.

Q. There is no mystery in my mind, because I know too much about it.

By Mr. Graham:

Q. Would you agree with this, Mr. Clarkson: if the shareholders' position in the bank is in jeopardy, of necessity the position of the depositors is jeopardized, not to the same extent but nevertheless to some extent?—A. Well, the depositor has protection first and the shareholder has it afterwards.

Q. Yes.—A. But they are both in jeopardy if anything is done which undermines confidence in the situation.

Q. That is what I mean. You have told us how that inside or inner reserve is created. I wanted to ask you to pass your opinion on this. From your long experience, both as a shareholders' auditor and as a liquidator in some of the bank failures that have occurred, do you consider it wise in our banking system to have inside or inner reserves?—A. Well, I think I answered that. I do not think you can carry on your system and grant credit of the kind that is required in Canada unless you have substantial reserves.

By Mr. Fraser (Northumberland):

Q. It is not only wise; it is imperative?—A. Well, I think it is necessary.

By Mr. Graham:

Q. The point is this. You could hold reserves and have them all appear in the public statement. I want to know if it is wise, in your opinion, to have what are known as inside or inner reserves in addition to the disclosed reserves?—

A. I think it is unwise to show them; and I will tell you why.

Q. That is what I want to get at?—A. Let us suppose that you have a bank whose inside reserves, on the basis that I mentioned, are \$5,000,000. Put it \$10,000,000 if you want to, but I will say \$5,000,000. Let us assume that when it prepares its public statement for 1943-44, such inside reserves are \$5,000,000 and that the bank has \$100,000,000 of securities, should a fluctuation in the value of such securities take place in the next year to the extent of one point only, upwards, the inside reserves would be shown to have increased to \$6,000,000—when the public would believe that the bank's earnings were \$1,000,000 more than shown in its operating statement. Or take the converse. Suppose it has inside reserves of \$5,000,000 and \$100,000,000 of securities, and in the next year there is a drop of three points in the value of the \$100,000,000 of securities. Its inner reserve would then be shown as having been reduced from \$5,000,000 to \$2,000,000, and uninitiated and non-informed persons would say that it had lost \$3,000,000 in the year which was not shown in its operating account and that it was therefore dangerous to do business with it. I think it reasonable to give information which will be generally understood by the public, but I do not consider that the above conditions would be understood or properly appreciated by the public in general; therefore I think it is most unwise to publish the inside reserves of the banks. I think it would be dangerous to do so.

Q. What part, Mr. Clarkson, in your opinion, does the confidence of the public play in a bank's business?—A. It plays everything. If the bank loses the confidence of the public and the public begins to withdraw deposits it is generally only a matter of time until it has to be taken over by another bank—or else goes out of business.

Q. And the bank which takes it over, having the confidence of the people, would be able to carry on?—A. Yes.

Q. Would you tell us this, Mr. Clarkson: in your opinion, did the fact that the Canadian banks had inner reserves or inside reserves assist the Canadian banking system to come through the thirties, the depression period?—A. It most certainly did.

Q. You have no doubt as to that?—A. No doubt in the world.

Q. Can you offer an opinion as to what might have occurred if the Canadian banks had had no inside or inner reserves to absorb losses that occurred?—A. If they had turned out a statement according to the Act, they would have shown a deficit or their outside reserve part wiped out; and that would have brought a cessation of confidence.

Q. With the resultant crisis?—A. The inner reserves are merely a factor or margin of safety to take care of those fluctuations.

By Mr. Fraser (Northumberland, Ont.):

Q. A necessary cushion?—A. It is a cushion.

Mr. FRASER (*Peterborough West*): May I ask a question?

Mr. GRAHAM: Yes.

By Mr. Fraser (Peterborough West):

Q. Having regard to these inner reserves, are they always revenue-producing or might they be non-revenue producing?—A. I can only answer you in this way. They are the difference between the aggregate fair realizable value of the bank's assets and the aggregate value of the composite lot as they appear in its statement. They are not earmarked at all. They are just so much in the pot.

Q. What I am getting at is this. I was wondering if they produced any revenue or not. They might and they might not. They might be profitable.—A. Oh, well, they would not be that; because you can see in your statement—

Mr. FRASER (*Northumberland, Ont.*): There is nothing there.

The WITNESS: Part of it might be in cash. Part of it would be in loans and part in securities.

By Mr. Fraser (Peterborough West):

Q. What I am getting at is this. Statements have been made here that the banks are not paying any taxes on those inner reserves.—A. I should like to clear that up now.

Q. Yes.—A. I have heard it said that the banks are not paying their fair taxes. I want to say that so far as some of the institutions which I have had to do with are concerned, they have reduced their inner reserves in the last few years by over \$1,000,000 and paid the maximum taxes on that, a situation which to my mind has been very unfair to them in this way. Ten years or seven years ago, or whatever the time is, there were loans on the books of the bank which appeared to be bad, doubtful, and a reserve was made against them so as to carry the loans as an asset of the bank for what they were believed to be worth. Then after being written off in that way and carried into its inside reserve, some of such loans came back in later years and in 1943; having been written off as a deduction from profits ten years ago, such recoveries were added to profits when they were received. This increased profits in such years and left part of them subject to excess profit taxes of 100 per cent as compared with 15 per cent taxes which the bank saved in the earlier period when such loans were written off. The course pursued by the bank was a proper course, but what I am saying to you is that by occurrences of such kind the inside reserves of some institutions have been reduced and the amount of taxes which they have paid has been unduly high. I think there is a situation in that connection which is worthy of consideration.

By Mr. Fraser (Northumberland, Ont.):

Q. Those reserves are reflected in the operating account?—A. The reserves went back into profits if the reserves of the bank are considered to be adequate without inclusion of the same.

Q. But they are reflected each year in the operating account?—A. Ordinarily they go into its profit and loss account under the circumstances mentioned.

Q. From the operating account into the profit and loss account?—A. That is where recoveries go—under the conditions mentioned.

Q. So they are reflected in the bank statement each year in the operating account?—A. What has happened is that recoveries from loans written off in prior years go into operating account when the inside reserves are deemed to be adequate; then new appropriations made in respect of losses on loans in the year are charged against the same. The excess of recoveries over losses is profit which becomes taxable.

Q. The point I am trying to make, Mr. Chairman, is this: the hidden reserves are reflected each year in the operating account. They are not something chucked away in a corner.—A. Oh, no, no.

Q. They are reflected either as a decrease or increase in the operating account.—A. In the earnings obtained on the hidden reserves. You obtain your earnings on all your assets, included in which are those hidden reserves.

Q. On all your assets in your operating account?—A. That is right.

Q. They are not set aside?—A. No.

Q. They are reflected each year in the item of operating and investment account of the bank?—A. That is right.

Q. So that as that account increases, they increase; and they pay taxes on that increase?—A. The bank pays on its net profits.

Q. And it goes back into the operating account?—A. Yes.

By Mr. Fraser (Peterborough West):

Q. Before Mr. Clarkson goes on, I should like to ask another question. You feel that the banks are paying plenty or enough taxes on these inner reserves and in many cases more than they should?—A. I am not going to express any general opinion. I do not know anything about the institutions beyond those I have had to do with.

Q. But they are paying taxes on the inner reserves?—A. Yes.

Mr. SLAGHT: No, they are not.

The WITNESS: They are paying taxes on the earnings from their inner reserves.

Mr. Fraser (Peterborough West): That is what I mean.

Mr. NOSEWORTHY: May I ask a question?

Mr. GRAHAM: Yes. Go ahead.

By Mr. Noseworthy:

Q. The witness told us earlier that these inside reserves are adjusted from year to year.—That is right.

Q. They may be lower one year because the assets are more realizable or up or down from year to year.—A. The inner reserves are determined by valuation in each year.

Q. Yes.—A. They will be up or down—but the appropriation accounts shown on the books of the bank are not its inner reserves. The inner reserves of a bank are the difference between the fair value of its assets, and the amounts at which such assets are shown in its published statement—such difference being the margin of safety held by the bank.

Q. What I was coming to is this. You questioned the wisdom apparently of the banks reducing their inner reserves, say, in 1943 because loans have come in which, ten years ago, they held reserves against. Is it not a fact, in the light of your former statement, if the inner reserves from year to year are to reflect the true position or the true value of the assets; they would be undervaluing their assets were they to operate under any other procedure?—A. Unless they took their recoveries into account, it would not be a valuation of all their assets. Assets which the bank valued at \$400,000, in one year may turn out to be worth nothing in one year—in another they may prove to be worth \$200,000.

Q. I am not quite clear; you refer to reserves that were made some years ago?—A. Yes.

Q. When the bank saved, you say, 15 per cent tax?—A. Yes.

Q. On these securities?—A. Or loans.

Q. And these loans become good in 1943 and are paid in full?—A. That is right.

Q. And consequently you say the bank reduces its inner reserves by the amount of these loans that have been made good; they have reduced their inner reserves when these loans are made good and come back into the profit and loss account. Your statement was they are reducing their inner reserves in 1943 by transferring these accounts from inner reserves to profit and loss. My point is that if they did anything else they would be under-valuing securities in 1943?—A. Well, it goes into the treasury—what they collect goes into the treasury. As a matter of fact what it does is this, it puts on one side its recoveries of such loans and on the other side the appropriations which it makes for losses in the year when should the recoveries exceed such appropriations by let us say \$200,000 its inner reserves are reduced by \$200,000.

Q. If they did not do that they would be under-valuing their securities?—A. Yes.

By Mr. Graham:

Q. Mr. Clarkson, this may be elementary but I assume that a bank in order to build up an inner reserve must make a sufficient profit to admit of these being set up without encroaching on the capital?—A. Well it must have sufficient profit in each year to cover its losses in that year, and, over a period of time, to accumulate in the aggregate a reserve against potential losses.

Q. Now, to come back to the statute. You have told us your interpretation of your duties. I take it that you consider that in addition to your duties as shareholders' auditor you are a quasi public official as a result of the duties imposed by the statute. Is that correct?—A. That is true, yes.

Q. And listed among your duties as shareholders' auditor is that of making reports to the Minister of Finance, furnishing him with a copy of the report which you furnish the shareholders?—A. That is right.

Q. Now, will you tell the committee if there is much co-operation between you in your case as shareholders' auditor of the two banks and the Inspector General?—A. Well, in connection with our audit, we perform that independently of the Inspector General. He gets the particulars. If he has any comments to make or anything to say, I suppose he will say it; but so far as the audit is concerned, we go ahead about our duties and perform them. That is what we do.

Q. I imagine in the years that you have been acting as shareholders' auditor there have been frequent meetings?—A. No, they have not had to be frequent. We have communications at various times; perhaps one, two, three in a year; if the Inspector wants to discuss our report or if he had anything else to say to us he does so.

Q. And that is what I would imagine; but I want to go a little further; in the carrying out of your duties, you feel that it is proper for you to make disclosures of all essential facts to the Inspector General and discuss the results of your audit whenever the occasion requires?—A. If occasion requires, yes.

Q. Will you tell me this: in your experience do you find as shareholders' auditor that the banks and its directors make available to you all the necessary books of record and sources of information?—A. I never had any difficulty in getting everything I wanted.

Q. You feel that the audit you make is full and complete, a full disclosure of the facts that you are required to pass on?—A. I think the answer is, yes; but can I come back to the point of the value of the assets of the bank; that is a matter of opinion.

Q. Well now, I want to ask you this in regard to that: do you consider it part of your duties as auditor of the shareholders to pass judgment upon the value of the assets?—A. I consider it a part and parcel of our duties to do so.

Q. And do you consider it part of your duties to pass judgment as to the amount being held in the inside reserve?—A. That follows our valuation. I want to say that we form our independent judgment with respect to the value of the

assets of the bank, then we discuss the matter with its officials so as to get any information they can provide and is available on matters of controversial interest; there are times and occasions when an auditor may not agree with the opinion of the bank officials.

Mr. SLAGHT: I didn't catch that.

The WITNESS: There are times when the auditor may not agree with the officials of a bank as to the amount of the appropriation necessary to be set up against a specific loan—

By Mr. Graham:

Q. And the auditor's opinion prevailed?—A. Yes, the bank officials accepted the same.

By Mr. Kinley:

Q. Has the auditor the final say in regard to that?—A. I do know that it has ever come to such a point.

Q. I see.—A. There is reasonable consideration on both sides.

By Mr. Graham:

Q. If a bank refuses to follow your suggestion, would you consider it your duty to report that instance to the Inspector General?—A. Such a condition has not happened yet with all—

Q. If it did occur, and you wanted to find out what practice you would follow, would you do that?—A. If it were a matter of importance.

Q. You would report it to the Inspector General?—A. I probably would.

Q. Yes. Now, as I read the Act, you finish your audit and complete your statement which you must declare to be a true statement of the facts and figures. Do you present that to the shareholders at the general meeting?—A. We give it to the president and directors of the bank and they submit it.

Q. Yes, I know the provision is that you—

Mr. SLAGHT: I did not hear the answer, Mr. Chairman.

Mr. GRAHAM: He says, he submits it to the directors and they in turn submit it to the shareholders' meeting.

The WITNESS: That is right.

By Mr. Graham:

Q. I notice that the Act provides that your report of the shareholders' audit must be attached to the report or statement the directors propose to submit to the shareholders' meeting and it must be read at the shareholders' meeting.—A. There is a statement and there is the certificate addressed to the shareholders.

Q. And I notice that there is statutory provision that the report must be read to the shareholders?—A. That is what is done.

Q. Now, I want to ask you one more question. In the case of the banks in which you acted as liquidator; had they pursued in the years before the disaster a wise banking policy and had they built up the necessary reserves that would have assisted the bank in meeting and solving the difficulties which occurred such as the one in connection with the Keeley Mine?—A. Let us put it this way. If the bank had been managed in a wise manner, I do not think it would have made a loan of such a kind.

Q. Tell me this, again drawing on your experience, the Minister of Finance put on the record in the House of Commons that in the year 1943, which was generally recognized as being an above the average year, that the net return on the shareholders' equity was a little in excess of 6 per cent; my own thought about that, Mr. Clarkson, is this?—A. By return do you mean dividends?

Q. No, the net earnings, the net profits of the chartered banks based on the shareholders' equity—they were 6 point something per cent.—A. Well?

Q. Now, my question: I have finished my statement—I don't suppose you disagree with the fact—I want to ask you a question based on that statement and my question is this: banks must, like all other trading corporations I take it, to a reasonable extent, lay up reserves in the fat years to provide for the unfavourable years or the more difficult years; that is true, is it not?—A. They must be able to accumulate a sufficient factor of safety in the good years to take care of the losses in the bad years.

Q. To do otherwise would be foolish from a banking or any other standpoint; it would be common sense?—A. Common sense, yes.

Q. Now, if that is true, I am a little alarmed that if our chartered banks, part of our public system of depositaries for the people's savings and for the performance of clearing house duties and so on—I am slightly concerned that the return mentioned is rather insufficient to provide safety with that as a net profit in a fairly good year; what do you say to that?—A. What is the question?

Q. I want to know if you consider—let us put this in a rather extreme form—that 6·7 per cent would be a sufficient return on the bank's operation for a year; would that be a sufficient return to provide that measure of safety and those reserves necessary to protect the position of the bank in respect to any factors which may develop?—A. That is a question for the banks to answer, because you have each bank in a different position; you have some banks which have sufficient inner reserves—you have some with not quite sufficient, and some with somewhat less.

Q. Let me put this to you then: suppose our Canadian banking system were commencing to-day and had no reserves at all and had to go through the process of building up those reserves and of providing that stability and safety that we demand of our banking institutions, would a return of 6 per cent be sufficient to do that—I do not say it is not, I am wondering if it is?—A. I would not want to answer that question offhand because it is something I would rather have an opportunity of studying. I cannot give you an offhand answer.

By Mr. McNevin:

Q. Suppose you turn the questions around; do you consider the return of 6 per cent in 1943 was an exorbitant one?—A. No.

Q. In the practice of your profession you audit the books of many manufacturing and mercantile concerns?—A. That is right.

Q. As well as banks?—A. Yes.

Q. I would like to give this illustration. Supposing a manufacturer or a merchant of some concern had goods on their shelves at the end of the year of \$100,000 and may be that would be say in 1930 and looking into the future it did not appear possible to realize \$100,000 on that inventory, therefore in their statement in place of putting \$100,000 they would put it at approximately \$90,000?—A. Yes.

Q. Is there not some relationship between that \$10,000 and the inner reserves of the bank?—A. Well, there is.

Q. I mean, it would fall in some similar classification in different lines of business?—A. There is, to a degree; because the bank values its assets and the commercial company values its inventory; so there is a relationship.

Q. So both are really inventories?—A. They are both inventories.

Q. In different lines of business?—A. Yes, they are both inventories.

By Mr. Slaght:

Q. Mr. Clarkson, on this matter of inner reserves, I wonder if you would make clear to us what the accountants for the bank do at the end of the fiscal year? May I suggest to you—this is at page 136—they set up their earnings

for the year and there are various sources of reserves and then they set up the operating expenses, do they not?—A. Well, they have their income from various sources: interest, services, dividends and things like that; then they have their expenses in addition to that, Mr. Slaght. They have their recoveries of debts written off against which they have appropriated for debts that they expect to make. Now, I can give you—

Hon. Mr. ILSLEY: Do you not mean for losses?

The WITNESS: For losses they expect. I haven't got it with me here but I could give you a statement which would show you just how it is made up. It is very little different in principle.

By Mr. Slaght:

Q. We had that brought out pretty well. Would you mind turning to page 136 and look at the evidence there? Would someone be good enough to give you a copy of it, that shows the statement which the Minister of Finance placed on *Hansard*?—A. Yes.

Q. You see that?—A. Yes.

Q. In making up the statement of their operating expenses for 1943, as I understand you, they ascertain the losses for that fiscal year that have become actual—if I may use the word "actual"—losses?—A. No, not altogether actual but prospective.

Q. Well now, I am going to suggest to you that there are two different items that as an accountant you review?—A. Let me just see this, Mr. Slaght. If I were preparing this statement on page 2620 I would put the current operating expenses at \$144.5 million and I would add to the current operating expenses \$13.8 million being the amount required for annual losses. These annual losses are just as much operating expenses as the payment of wages to employees.

Q. Yes, I quite agree with you, but the point I want to make first, if I am right, is that at the end of each fiscal year besides their wages to employees and taxes, they include as operating expenses the sum which has been actually lost in that year?—A. That is right.

Q. And quite properly so; I would say that is part of the expenses of operating a banking business?—A. That is right.

Q. Yes; now, that being included in the operating expenses that of course reduces the net profit?—A. That is right.

Q. And now then, this further item which is the inner, the inside reserve as it is called by you is an item that deals entirely with the possibility of a loss occurring in future years?—A. That is right.

Q. Yes; and you are the shareholders' auditor?—A. That is right.

Q. Could you furnish us with a copy of your report on one of your banks as the shareholders' auditor; have you got that with you?—A. No, I have not got one.

Q. Could you make it available to this committee?—A. I think it is in this annual statement.

Q. Well, that may be; will you point out to me where we have now before us a copy of your auditor's report to the shareholders? Take the Bank of Commerce, if you will, because we have had that before.

The CHAIRMAN: This is the Bank of Toronto.

Mr. SLAGHT: I am familiar with the Bank of Commerce.

Mr. KINLEY: He is not the auditor of the Bank of Commerce.

By Mr. Slaght:

Q. Perhaps I can ask you this, Mr. Clarkson. This is the point I have in mind. If I were a shareholder of the Bank of Commerce, let us say, and read your report to the shareholders would I be able to ascertain from that the amount that the directors had set aside last year as a hidden reserve?—A. No.

Q. Why do you not tell your shareholders what the directors are setting aside for possible losses?—A. Why should you?

Q. Is there any other answer than that? If not I will pass on.—A. No.

Q. There is no other answer.—A. Wait a minute; I do not see any reason why you should tell them the amount recovered on loans written off and the amount appropriated in the year for prospective loans any more than you should tell them any other expenses or recoveries.

Q. Are there any other expenses you hide from them?—A. You are not hiding. I do not think you are hiding them because you see—

Q. If we are not hiding at all tell us what they are, and I want to warn you that everybody so far, bankers and government, have refused to help us get the amount. I do not want to trap you. If you are not hiding them what are they?—A. Net profit for the year after deducting dominion government taxes, including tax on note circulation, and after appropriations to contingent reserve fund, out of which fund full provision for bad and doubtful debts has been made, so many dollars.

Q. Do you suggest that so many dollars discloses to them the amount of the hidden reserves?—A. Now, you are all mixed up, if I may say so, between a hidden reserve—

Q. You may certainly say so.

The CHAIRMAN: Let him finish.

The WITNESS: What are you trying to get at, annual profits or hidden reserves?

By Mr. Slaght:

Q. I am trying to get at both, Mr. Clarkson.—A. You say does this disclose the hidden reserve?

Q. Yes.—A. Your hidden reserves are part of your annual operating account.

Q. That is true.—A. What you do is this, you have a big reserve, we will say of a million dollars in contingent account.

Q. What do you mean by that, a disclosed reserve or not?—A. Undisclosed, on your books.

Q. On your books?—A. All right; in the year 1943 you recover from debts written off in the past \$500,000; you add that to your contingent reserve or it goes into your profit and loss.

By Mr. Fraser (Northumberland, Ont.):

Q. Also in your operating account?—A. Profit and loss and operating account.

Q. From the profit and loss to the operating account?—A. In that way we reduce that reserve. Then you write off say \$250,000 for prospective or actual loss in that year, and that brings the reserve to \$1,250,000 again.

By Mr. Slaght:

Q. That is all very interesting but it does not touch the question I put to you.—A. Of what?

Q. You suggested you do not hide from the shareholders the amount that the directors set aside tax free for an inner reserve. I suggest you do. If you do not hide them show us in any statement either before the committee now or in any report you made to the people you are working for, the shareholders, where you have told them what amount their directors have set aside for hidden reserves. I suggest to you there is not any such disclosure?—A. No. I misunderstood you. You do not tell the shareholders what amount you appropriate in each year as against actual or prospective losses.

Mr. FRASER (Northumberland, Ont.): Have the shareholders ever asked for that?

Mr. McILRAITH: Let us get the answer complete. I should like to get the full answer.

The WITNESS: You do not show to the shareholders the amount which the directors set aside each year for actual losses or prospective losses. Neither do you tell them the actual amount you have recovered in the year from bad debts written off in past periods, but both of them enter into your statement of your profits for the year. One increases it and one reduces it.

By Mr. Fraser (Northumberland, Ont.):

Q. Have the shareholders ever asked for further information?—A. Not to my knowledge.

By Mr. Slaght:

Q. Are the shareholders interested in the hidden reserve, in the money that lies there?—A. Money?

Q. You said part cash and part security.—A. Mr. Slaght, it is like a pail of water.

Q. I do not care if it is water or wine.

The CHAIRMAN: Let the witness answer.

The WITNESS: You cannot earmark it. It is just so much water. Are they interested?

By Mr. Slaght:

Q. I am asking you whether they are interested in that amount because Mr. Tompkins told us by throwing that back into the disclosed reserves and paying taxes they could declare that amount properly as a dividend. Do you agree with that?—A. No, I do not agree with it at all. Wait a minute; I say to you the inner reserves are the difference between the fair value of the assets of the bank and the amount at which they are shown in its statement—the factor of safety.

Q. I think we all understand—

The CHAIRMAN: Please allow him to conclude.

The WITNESS: I suppose technically it might be legally possible to turn them in and disburse them, but if you did—

By Mr. Slaght:

Q. Of course it is possible legally, technically and every way.

Mr. McILRAITH: On a point of order—

The CHAIRMAN: Mr. Slaght, will you please allow the witness to finish his answer?

Mr. SLAGHT: He had finished.

The CHAIRMAN: I beg your pardon.

Mr. SLAGHT: I beg your pardon, because he had finished. If there is anything further to say, Mr. Clarkson, will you add it?

The WITNESS: I say to you this inner reserve is a factor of safety, an amount which has accumulated on the average over seventy-five years of banking operations. I suppose legally it would be available to be turned into the profit and loss account and disbursed if you want to close your bank up.

By Mr. Jackman:

Q. After being taxed? Would it be taxed?—A. If it came back, yes, it would have to go into the profit and loss account and have to be taxed. It could not be paid out without it was taxed, but it has accumulated over seventy-five years.

By Mr. Slaght:

Q. Quite so. Now then, your duty as defined by law under statute is to investigate and make a report to your shareholders on the affairs of the bank. You recognize the words in the Act?—A. Exactly.

Q. Tell me if you carry that duty out and report to your shareholders on the affairs of the bank in the full sense of that word why on earth do you hide from your shareholders the amount that the directors set aside, tax free, as a hidden reserve?—A. Why do you hide what you pay for rent? Why do you hide what you pay for remuneration, what you pay for this, that, or that? I do not see that.

Q. Let us see if they do hide those things.—A. If they want information they can ask for it.

By Mr. Fraser (Northumberland):

Q. You do exactly the same as you do with an industrial company?—A. Exactly; they can get it if they want it, and it is not against the interests of the company to divulge it.

Q. Numerous industrial companies follow exactly the same principle as you do here.

By Mr. Slaght:

Q. Let us test your last answer. If you look at the statement, page 136, they do set out remuneration to employees as so many millions, provision for taxes at so many millions, contribution to the pension fund, and provision for depreciation and all those things; they are all open to the shareholders?—A. No. That comes from the special statement which was prepared at the request of the department, as I happen to know. That is not in the annual statement.

Q. Do you suggest the annual statement does not show remuneration of employees?—A. No, it does not. There is your annual statement of profit and loss. There it is.

Q. It has two items there?—A. That is right.

Q. You do agree that by setting this sum aside for possible future losses the shareholders escape taxation on it in the fiscal year in which the money was earned, in that particular fiscal year?—A. In setting aside that amount for losses, in my opinion, it is a legitimate cost of operation in that year.

Q. I did not ask you that. I asked you a simple question that when the directors - - - A. I do not admit they escape taxation on it.

Q. You do not say they do?—A. No.

Q. We have heard from everybody else it is not taxable?—A. Well, the amount you pay out for remuneration of employees is non-taxable, is it not?

Q. Quite so.—A. It is no less a cost.

Q. Do not let us quarrel about the words "escape taxation". Let us take an amount of \$5,000,000 without any significance to the amount; you agree that if in a given year the directors say, "We are going to set aside \$5,000,000 for possible future losses", they do not pay taxes in that year on it?—A. If the directors say, "In our opinion there are losses on business for the year of \$250,000," then they reduce the earnings of the bank by that \$250,000 and they pay taxes on the lesser earnings. I do not call that escaping taxes. What they do as against that, however, is that they bring into the earnings of the bank for the year the recoveries of loans written off in the past and they do pay taxes on that.

Q. Quite so.

By Mr. Fraser (Northumberland):

Q. Again the same as all other companies?—A. Exactly.

By Mr. Slaght:

Q. Then, you gave an illustration, the figures not being significant but to have us understand it better, that if they set aside say \$10,000,000, or a number of banks did, as a hidden reserve for the future in ten years time they might find half of that, \$5,000,000, to their delight came back and was paid although it was looked on at one time as a doubtful loan. You have illustrated that?—A. Yes.

Q. So that the country's taxpayers were without taxes for ten years on an amount which the bank never lost at all so far as the \$5,000,000 is concerned?—A. Technically you are right. It was written off five years ago but it has come back now, and what I say to you is the country gets six to seven times the taxes it would have got.

Q. Let us look ahead a little.—A. I agree with you that it could write off a loan now and possibly escape 100 per cent taxes on the amount of it and then, if five years from now such loan was paid in full and corporation taxes were reduced it might pay lower taxes on the recovery from the same.

Q. I am afraid that our Minister of Finance could not assure us that we can expect much reduction in taxes in five years. Frankly I do not.—A. All right. The odds are against the banks.

Mr. McILRAITH: Again the witness was interrupted. I am finding this examination most interesting and would like to get the full answer and the full question.

By Mr. Slaght:

Q. Is there anything more to add there?—A. No, except to say that as to "escaping taxation." I do not like the word "escape".

Q. Mr. Tompkins did not like it. I will not use it if it will soften the matter between us at all. You will agree perhaps with this, that the discretion as to how much they set aside—and that amount is not taxed that year—lies with the directors?—A. Subject to the approval of the auditor.

Q. And if the auditor did not approve of it in a given year I fancy there would be a new auditor for the next year. We are told the directors do the setting aside.—A. Maybe so.

Q. Have you any authority under the Act—and I can find none—on behalf of the shareholders to either increase or cut down what the directors in their sole unfettered discretion decide is the amount to be set aside for the future and which is not taxable?—A. All I say to you is that the custom is at the end of each year for the auditors to discuss all relevant matters with the management of the bank. Differences of opinion arise. I have yet to reach the point where an utter break in view has occurred between myself and any of those I have had to deal with.

Q. I can quite expect that because you have in my view a very high reputation and your services are very very valuable.—A. Oh, I do not know.

Q. Let us take this other feature, and I do not want to keep you too long. We have had it disclosed that the reserves which they make known amount to \$136,000,000?—A. That is right.

Q. Roughly, and the capital of the banks is \$145,500,000?—A. That is right.

Q. Now then, I put this to you that in the past nineteen years these disclosed reserves have not dropped below \$136,000,000?—A. I cannot tell you that. That is a matter of fact. In the last how many years?

Q. The nineteen years of Mr. Tompkins' regime.—A. No, I would not say that you were right there because in the last fifteen years there was \$22,190,000 paid in from premiums on capital stock which went into these outside reserves.

Q. Subject to that \$22,190,000 which went into the outside reserves, my point is this—A. And I think there was \$12,190,000 which went in from earnings.

Q. And there was \$29,500,000 that we have heard was taken out?—A. Written off.

Q. No, not written off, if I may say so, taken out of the disclosed reserves and taken back into the inner reserve in order to meet losses from three or four bad years?—A. The outer reserves were reduced by \$29,500,000.

Q. You were fearful lest some uninformed persons—that is the phrase you used—that if we should come out in the open in the banking business and disclose this mysterious hidden reserve along with the reserve we do disclose and then it had to be depreciated one year for losses that uninformed persons might get the wrong idea about it?—A. I do.

Q. Pardon?—A. I do.

Q. Is there any other reason than that for treating the two sums in a different way, that is, hiding one and disclosing the other, or is there some other reason, because this committee has got to grapple with that problem some day.—A. Mr. Slaght, you know in 1933 when the banks had to write off part of their outside reserves it undermined confidence in some of the banks which did so. In Canada, rightly or wrongly, whenever you touch an outside reserve, or reduce it, you undermine confidence. I do not understand why it should do so to the extent which it does.

Q. Who did not understand it on that occasion?—A. A great many people. I will tell you one instance that occurred at that time.

Q. We will see what there is in this.—A. There was a woman who had a deposit in a bank at the corner of St. Clair and Bathurst. She was very much upset at such reduction in the reserves of the bank and thought it meant the bank was in trouble. She went up and stood in line in the bank to get her money and when she got it she took it down Bathurst street about eight blocks and put it in another branch of the same bank. That indicates what I mean by uninformed persons.

Q. What harm did that do to anybody?—A. It did not do any harm in the world but it just shows the ignorance of some persons.

Q. How many of our 11,500,000 people are you going to brand as so ignorant as that?

Mr. FRASER (*Northumberland*): On a point of privilege I object to that question.

The CHAIRMAN: I think that question is unfair.

The WITNESS: I do not brand them as ignorant but I say to you I do not think there is one in ten of you in this room who properly understood what the inside reserve of the bank was.

Mr. SLAGHT: I am sorry Mr. Ross Macdonald is not here. He says he knows all about it.

The WITNESS: I am telling you that and I believe it.

The CHAIRMAN: So do I.

By Mr. Slaght:

Q. If there is not one in ten here who understand it why would it not be right for a committee of parliament, because after all our constituents send us here supposedly with average intelligence, once in ten years to have it disclosed to it so that we can report the details of the business of the banks, as you are required to report to your shareholders, back to parliament?—A. Mr. Slaght, so far as the banks are concerned or any other institution in Canada I think that the government is entitled to any information it wants about them.

Q. You did not know we had been refused it by the banks and the president of the Bankers' Association?—A. I do not know that, but I think that parliament should be paramount. It is entitled to any information it wants. It is entitled to any information it requires in respect of earnings. All I am trying to say to you is that so far as the institutions I have to do with are concerned there has been an effort made to truly state the position of each bank after allowance of a factor for safety—a necessary allowance so far as earnings are concerned. And so far as the earnings are concerned, there has been a true effort made to state the earnings, to the penalty of the banks.

Q. You have the Bank of Commerce statement before you there. Will you show me anywhere where the earnings are truly stated? I think the closest you can get to it is on page 8.—A. I have no reason to question those earnings as not being truly stated.

Q. When you say "earnings", you mean for the fiscal year under review?—A. Yes.

Q. And earnings come from three sources or more, as we have heard?—A. From a number of sources.

Q. I suggest to you that those earnings are not truly stated for this reason: more money than appears as earnings for that year actually came into the bank's till and they took off an item, writing down their assets, which was the equivalent of part of those earnings for that year. What do you say as to that?—A. You mean for inside reserves?

Q. Yes.—A. I say it is a necessary expense as a factor of safety.

Q. I know that is what you say.—A. Yes.

Q. Let us not confuse the matter.—A. I say that the bank had a perfect right to provide a factor of safety in that year as an expense of doing business.

Q. I quite understand that is your view; and I do not want to spend any time discussing it with you, because you would not change me and I would not change you.—A. That is right.

Q. Assuming that they have the right to do it, I suggest to you that the way in which it is done does not disclose their gross earnings for that year.

—A. They do not disclose their gross earnings anyway.

Q. They do not disclose their gross earnings anyway?—A. No.

Q. That is the first time we have that recorded.—A. No, no. Here is this statement you have just put in front of me in the House of Commons debate. Their gross earnings are \$144,000,000 there.

Q. Did you mean it when you said they do not disclose their gross earnings?—A. Any individual bank does not disclose its gross earnings; it is net profit for the year.

Q. Why does it not disclose their gross earnings to the shareholders?—A. Well, this is the form of statement that has been issued by the banks for generations, something like this; it has always been satisfactory and has always been taken as such.

Q. Do you suggest that you are truly reporting the affairs of the banks to the shareholders? I am not suggesting any bad faith, Mr. Clarkson.—A. Oh, no; I understand that.

Q. I could not, against you.—A. No, no.

Q. But do you suggest that you are, as a shareholders' auditor, truly reporting the affairs of the bank to your shareholders when you do not tell them what the true gross earnings for the year are?—A. Most certainly.

Q. Most certainly. You do not tell the shareholders what the bank has earned in a given year?—A. The gross?

Q. Yes.—A. Gross does not mean net.

Q. No. Of course it does not.—A. I do not think there is any necessity to tell them what the gross earnings of the bank are. If they want it, they can get it, if it is not against the interests of the banks' shareholders.

Mr. JACKMAN: They can change their directors, if they want to.

Mr. GRAHAM: May I ask this question, Mr. Slaght. I take it, Mr. Clarkson, that with the statement that discloses specifically the net earnings, I could easily ascertain by a method of computation, the gross earnings?

Mr. SLAGHT: No, you cannot.

The WITNESS: If it was not contrary to the interests of the shareholders. You know as well as I do that in companies, people are entitled to a certain amount of information. But even though they are shareholders, there is other information they are not entitled to as being detrimental to the interests of the other shareholders.

Mr. SLAGHT: Then we have this. Mr. Graham thinks he can take the report and find out what the gross earnings are. I invite him to do so. He cannot do it.

Mr. GRAHAM: I think I can.

Mr. SLAGHT: Well, Mr. Clarkson has just told us very carefully and clearly that they do not disclose to the shareholders the gross earnings of the bank for that fiscal year. That is true, Mr. Clarkson?

The WITNESS: That is right. Why should they?

Mr. SLAGHT: "That is right. Why should they?" Mr. Clarkson says. If Mr. Graham can enlighten us as to what the gross earnings of any of the banks are—and I know he is pretty clever in these matters—I would be glad to have him record it now.

By Mr. Slaght:

Q. Will you tell me what the reason is that you as the shareholders' auditor do not disclose to the shareholders the gross earnings of your institution for a given year?—A. Because they are interested in the net earnings.

Q. I beg your pardon?—A. Because they are interested in the net earnings and the amount of money that is going to be available for distribution to them as dividends.

By Mr. Blackmore:

Q. And not in the expenses necessary for the operation of the bank?—A. You do not show them the expenses ordinarily.

Q. They are not interested in those?—A. I do not think so for they have appointed directors and a management.

By Mr. Slaght:

Q. I see. Let me ask you this: suppose someone wants you on behalf of an industrial group to go into the books of an institution which perhaps was changing hands, which perhaps your client expected to buy, would they not want to know all about the business?—A. That is right.

Q. Did you ever do that—make a report for a prospective buyer which conceals from him the gross earnings of a business in a year?—A. No, I do not think so, because in that case the position is something entirely different. Such a statement will show the amount of the gross earnings and also from what they were derived, and the expenses of all kinds, and in the end the net earnings of that business.

Q. Yes.—A. In connection with the banks you show the net earnings. Within my knowledge I have never heard of a shareholder asking for details of those earnings or of expenses.

Q. Well then, will you cast your mind on this problem: we are here as members of the special committee of parliament to decide whether we can properly report to parliament on the wisdom of renewing the charters of the banks in the terms of this draft bill. How are we going to be able to do that without being able in addition at the same time to state to parliament what the gross earnings of the banks were in a given year and what their gross expenses were?

Hon. Mr. ILSLEY: That is answered. We have supplied the gross earnings and the gross expenses.

The CHAIRMAN: You will find that on page 136, Mr. Slaght.

Hon. Mr. ILSLEY: You have said that you wanted the return, that you wanted to get all the figures the banks submitted the Finance Department; there it is in there.

By Mr. Slaght:

Q. Am I to take it from that that this indicates what the hidden reserves are?—A. Well, yes; this shows the hidden reserves.

Q. Then do you think this statement would have been put forward to me as disclosing the gross earnings; do you think this statement enables anyone who reads it, or parliament, to know that gross earnings of the banks were last year, and what their gross expenses were?—A. There it is.

Q. Is that true, is that an actual statement?—A. All I know is that it is a summation of reports to the Finance Department.

Q. We have been told that this fund set aside in a fiscal year for the hidden reserve comes out of the earnings and I suggest to you that the statement before you, if that is so, is not a correct or accurate statement of the earnings of these ten banks for the 1943 gross earnings?—A. I would not say that.

Hon. Mr. ILSLEY: You are wrong about that. I have tried to make that clear. That is just a simple little fact, that is all; that it does include anything that is appropriated to the inner reserves.

Mr. SLAGHT: As the minister has been kind enough to inform me of that perhaps he will tell us how we will ascertain from this statement we are referring to how much of the earnings of that year are hidden in inner reserves?

Hon. Mr. ILSLEY: I did not say you could ascertain that from it at all. I say that this includes the amount, and that these figures are the figures before appropriation to the inner reserves, not after appropriation to hidden reserves; and I suggest that our main concern is to see whether the earnings of the bank before appropriation to inner reserves are excessive at 6 per cent on the shareholders' equity.

Mr. SLAGHT: I understand that to be your point of view. Mr. Clarkson tells us that he does not report to the shareholders of the banks the gross earnings of the banks for a particular year.

By Mr. Slaght:

Q. You report gross expenses of operation?—A. No.

Q. You do not report at all on those?—A. No.

Mr. TOMPKINS: It has never been done in Canada.

The WITNESS: Never been done, never asked for it. That is the form of statement that has been accepted just in the same way as in any industry—it is a form of statement that has come down through many years and been accepted.

By Mr. Slaght:

Q. Before I depart from you would you give me any other instance that you know of in your years of experience as a bankers' auditor than the little lady who ran from one corner to another and drew it out and put it in? Is there any other evidence of shaking the confidence of the people that you can give the committee?—A. You know that in 1933 in Toronto when the outside reserve of some banks were reduced there was a wide withdrawal of deposits and a transfer of the same to other banks.

Q. I must say to you you are mistaken. I do not know of any such thing.—A. Then I tell you of it.

Q. You just said you did not think ten men in this committee knew what an inner reserve was.—A. The real meaning of an "inner reserve"; that is what I mean.

Q. Could you pick out the ten?—A. No, I do not know.

The CHAIRMAN: Mr. Slaght, please get on.

The WITNESS: I am not trying to be facetious, but I have had the inner reserves of banks discussed so often and so often they are right clean off the track as to what they are. They think they are money reserves on the bank's records, and that is not the fact at all.

By Mr. Slaght:

Q. On what do you base your statement that not more than ten members of this committee know what they are? Where are those beyond the ten who are off the track? How are we off the track?—A. I did not mean to say they were. I think I said I doubted if there were more than ten.

Q. Let us make it eleven then, but how are we off the track, those of us who do not know?—A. Because there are many people who think that inner reserves of a bank are the same in amount as the appropriation and contingent accounts on their books; they add the totals of such accounts and then assume that such total is the amount of the inside reserves of the bank, when it is not.

Q. Who does that? I do not know of anybody—A. I am telling you that. I have met only a very few persons—outside of bankers—who really know what inner reserves of a bank are.

Q. Now we are narrowing it down pretty badly.

Mr. FRASER (*Northumberland, Ont.*): Mr. Slaght, just as a matter of defence after the statements you have made, and as a member of this committee, I should like to take this opportunity, if possible, to impose upon this committee my own ignorance as an individual member so as to clarify the position that the hon. member and the witness have placed the members of this committee in.

Mr. SLAGHT: Do not put it on me. I think the committee clearly understood it, every member of the committee. It is not myself but go ahead.

Mr. FRASER (*Northumberland, Ont.*): It is a little difficult for a member of this committee to sit here and find out whether he is a moron or whether he is not from what is said. Let us get the thing clearly on the record once and for all as to an inner reserve.

Mr. JACKMAN: You must be the twelfth man.

Mr. NOSEWORTHY: You are one of the two or three who understand it.

By Mr. Fraser (Northumberland, Ont.):

Q. As I understand inner reserves—and I submit this with due respect, Mr. Chairman—inner reserves of the banks are created by the valuation of the stock in trade or inventory of the banking institutions each year as determined by their directors?—A. And their auditors and their managers.

Q. And as checked by probably Canada's outstanding firm of accountants, and the decrease of that inventory is considered necessary as a cushion to protect the depositors and the shareholders.—A. That is true.

Q. And these inner reserves are exactly the same as the inner reserves created by a lumber company when they appraise their inventory of lumber at the end of the year at a figure that the directors consider is advisable to protect that inventory against sale?—A. What they may get for it.

Q. Is that correct?—A. Yes.

Q. So these hidden reserves then are simply the adjustment of the stock in trade of the banks?—A. It is an adjustment of the assets of the banks, stock in trade of the banks.

Q. And are not, as the hon. member suggested to you, Mr. Clarkson, hidden any more than inventory reserves are hidden in industrial companies but are included and mentioned—and I am using the statement of the Royal Bank—under the item of stock in trade of securities with estimated loss deducted?—A. Estimated loss deducted.

Q. Deducted from the stock in trade of the bank?—A. Yes.

Q. That is correct, is it not?—A. That is right.

Q. May I repeat— —A. But when they deduct that there is a factor of safety in there.

Q. A factor of safety by the reduction of the valuation of the assets?—A. Yes.

Q. A bookkeeping figure?—A. That is right.

Q. And the inner reserves are created in that way?—A. That is it. I am egotistical enough to think that I know a little about it.

By Mr. Slaght:

Q. I should like to ask a question arising out of Mr. Fraser's question. The lumber company he is visualizing, or the corner grocery that you mentioned, when they undertake to write down and depreciate their assets, have to disclose their writing-down to the tax department?—A. Well—

Mr. FRASER (*Northumberland, Ont.*): No, no.

The WITNESS: No. I do not think there is any definite ruling; but generally they are not supposed to exceed a certain percentage.

Mr. SLAGHT: Quite so. But the percentage of the amount has to be laid before Mr. Fraser Elliott or his department.

Mr. FRASER (*Northumberland, Ont.*): They are treated no differently from the bank.

Mr. SLAGHT: Oh, yes.

The WITNESS: Well, I do not suppose that any of the banks would object to telling the Department of Finance. As a matter of fact, they give it.

Hon. Mr. ILSLEY: They do.

By Mr. Slaght:

Q. We are not speaking of the Department of Finance. I am speaking of the Department of National Revenue, the department which decides how much you pay or do not pay.—A. National Revenue, so far as I understand it, has not had to do with the earnings of the banks.

Q. No. We have had that made clear. They do not have anything to do with that.—A. But they divulge it; and I think the banks are entitled to divulge anything the Department of Finance wants.

Q. In case you are not coming back, let me ask you this. Do you find, as an auditor, that the banks pay the income tax for some of their staff?—A. Well, now, that touches on a very embarrassing problem.

Q. Why should it embarrass you?—A. It does not embarrass me a bit; but in the banks, starting years ago when the income tax was small, and in order to stabilize their rates of salaries, there was an agreement or arrangement made that they would pay the income tax on their employees' salaries.

Q. For part of the staff, perhaps?—A. Well, pretty generally. That was all right until the tax began to go up and the income began to be what it amounted to when you had to add the tax you paid in the previous year to the income of the previous year, and it began to get out of hand.

Q. It began to be heavy going?—A. To get out of hand. So at that time the banks began to take the question in hand to see what could be done to adjust it. I know that is one of the questions that an auditor sometimes gets consulted about.

Q. Quite so; and it has not been adjusted yet, as you know?—A. No. In the meantime, you have the salaries order that has prevented it.

Q. Quite so.—A. And it leaves some of the banks in the awkward position of perhaps having a legal liability that the law of the land prevents them from honouring.

Q. Take a man with a \$10,000 salary.—A. Yes.

Q. And let us assume that is all his income. Under the present rate he would pay what? Would it be nearly half of that in taxes?—A. Pretty nearly.

Q. Let us say \$5,000.—A. Yes.

Q. Perhaps you can tell me exactly.—A. No, I cannot.

Q. Then let us say \$5,000. The bank pays him \$10,000. Then they pay the income tax of \$5,000.—A. Yes.

Q. For him?—A. Yes.

Q. Then do they go and pay the income tax people that \$5,000 they have paid for him or did they change that?—A. No. That is where the situation was leading when they began to take hold of it and try to rectify it.

Q. You know what the position is to-day. What do they do with it? You can replace the figures by actual figures. There is \$10,000 salary, \$5,000 the bank pays.

Mr. KINLEY: It is an established expense.

The WITNESS: What I said to you is this. Suppose they start at \$10,000.

By Mr. Slaght:

Q. Yes?—A. Suppose the tax were \$5,000.

Q. Let us assume that.—A. That would be \$15,000.

Q. Yes?—A. \$15,000 then is the salary the man gets from the bank in the year. So next year they pay on the \$15,000?

Q. Yes?—A. And if the tax on that were \$7,500, then it would run up to \$22,500; and it was that situation, the increase of the taxes, which caused them to call a halt and see what had to be done to adjust the situation in a more reasonable way.

Q. Will you tell this committee of parliament whether or not that is still going on?—A. It is not going on in the banks with which I have to do.

Q. They are paying the income tax for the salaried people?—A. No, no.

Q. Not at all?—A. They are allowed to pay up to what it was in November of 1941, I think.

Q. I see here the answer of Mr. Morris Wilson in the committee ten years ago where he pointed out in speaking of salaried officials—he says he does not have his income tax paid as the other members of the staff have. Does that mean that it got so far down that it went down to the unmarried men getting \$800 and \$900 a year with his income tax paid?—A. I suppose each case is different, but I know of one case where it went right down the scale.

Q. Right down the scale?—A. And when the taxes were lower it was a not very serious matter, but when they began to advance then it was something that had to be given consideration.

Q. When was it stopped, this year?—A. No, it would be two years ago at least, nearly three.

Mr. TOMPKINS: With your permission, Mr. Chairman, I suggest that the fairest way would be to ask some of the bankers who are represented here about this matter.

Mr. SLAGHT: We have not had much opportunity of questioning the bankers.

Mr. TOMPKINS: I am only suggesting that because I think both Mr. Clarkson and myself would be placed in a rather difficult position in attempting to deal with it here.

Mr. SLAGHT: I did not want to embarrass either of you gentlemen. When the bankers come before us we will ask them.

Mr. GRAHAM: May I say this, off the record?

(Statement off the record.)

The CHAIRMAN: Gentlemen, just before we adjourn may I say Mr. Clarkson will not be able to be here beyond to-day; shall we meet this afternoon?

Mr. McNEVIN: I would move that we meet at 4 o'clock.

The CHAIRMAN: By the way, are we through with Mr. Clarkson?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: If we are through with Mr. Clarkson, we will adjourn until Tuesday morning at 11 o'clock.

The Committee adjourned at 1.10 o'clock, p.m., to meet again on Tuesday, July 11, 1944, at 11 o'clock, a.m.

July 11, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Shall we carry section 55?

Mr. WARD: Before we start proceedings, Mr. Chairman, would it not be well to decide what we are going to do at 12 o'clock in regard to the General de Gaulle reception? Are we going to adjourn or what are we going to do?

The CHAIRMAN: Suppose we leave the matter until we get there. There are two important matters to be considered. There is the revision of the Bank Act and there is the de Gaulle matter. I think it is safe to say that we will adjourn around 12 o'clock, but let us see if we can make some headway until we get to 12 o'clock.

Mr. McGEER: In order to get your seats, you have to be there fifteen minutes before 12. It is arranged that we shall take our seats there at fifteen minutes to 12.

The CHAIRMAN: We will send a messenger out to reserve your seat, Mr. McGeer.

Mr. McGEER: It is not a matter of reserving my seat. It is a matter of whether or not we will pay due respect to a great Frenchman who is here to-day as a guest of the government of Canada.

The CHAIRMAN: Yes, Mr. McGeer.

Mr. McGEER: It is not a matter of whether I want a seat or not.

The CHAIRMAN: Let us get on with our work, and then at a quarter to 12, if you want to, we will adjourn.

Mr. McGEER: Quite so. I do not need any instruction from you, Mr. Chairman, as to how to get a seat.

The CHAIRMAN: I was trying to do you a favour, Mr. McGeer.

Mr. NOSEWORTHY: Let us be good and we will get a recess.

The CHAIRMAN: Shall section 55 carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Then section 56, banking inspection. Shall section 56 carry?

Mr. NOSEWORTHY: There is an amendment to section 56.

The CHAIRMAN: What is the amendment?

The CLERK: A new subsection.

The CHAIRMAN: I will ask Dr. Clark to read the amendment, please.

Dr. CLARK: The minister's amendment is to include a new subsection immediately after Subsection (8) reading as follows:—

Where in the opinion of the minister an amount set aside or reserved by any bank out of income, either by way of write-down of the value of assets or appropriation to any contingency reserve or contingent account for the purpose of meeting losses on loans, bad or doubtful debts or depreciation in the value of assets other than bank premises or other contingencies, is in excess of the reasonable requirements of the bank having regard to all the circumstances, the minister shall notify the Minister of National Revenue and the Deputy Minister of National Revenue (Taxation) of the amount so set aside and of the amount of such excess, but nothing in this subsection shall be construed to give the minister any jurisdiction over the discretion of the directors of the bank with regard to amounts set aside, reserved or transferred to any reserve or other fund from income upon which taxes have been assessed under the Income War Tax Act or the Excess Profits Tax Act, 1940.

The CHAIRMAN: Notice has been given of the amendment. I presume that the members of the committee are familiar with the contents. Shall the amendment carry?

Some hon. MEMBERS: Carried.

Mr. SLAGHT: Mr. Chairman, I have some objections to the amendment. I do not know whether you want to discuss them now or whether you want to have the section stand until the minister is here.

The CHAIRMAN: The deputy minister is here. I think we can discuss it now.

Mr. SLAGHT: In a word, the amendment recognizes for the first time, in my view, by statute and by implication the right of the bank to set aside out of current earnings in each year a sum of money tax free called an inner, or as Mr. Clarkson put it, inside reserve. That inner reserve—which, as we have heard, is hidden from the shareholders—is a reserve which is precisely similar in character to the disclosed reserve which, as we learn, is \$136,000,000. When I say precisely similar in character I mean this. Perhaps I should disclose early my objection to the amendment. It is that we are placing the stamp of approval by parliament on this course of conduct for the future, that the directors may sit down at the end of a given year and, after including in their operating expenses the amount of their losses in that year—which no one objects to—they may then set aside, with their pencil or pen on paper, an arbitrary sum of money out of the earnings of that year. The result of that is that such sum of money is handled by their auditors by way of deduction, as a deduction from the value of their assets; that is, from the value of their loans and assets. That piece of arithmetic takes place and then, as Mr. Clarkson told us, there is no earmarking of the sum set aside for hidden reserve. Let me illustrate that by taking an

arbitrary sum for a given year; and no one need feel that this is even a good guess. But suppose, in a given year, the ten banks, we will say, set aside \$6,000,000, each setting aside its own portion making up that total amount.

Mr. MACDONALD (*Brantford City*): Mr. Chairman, may I interrupt for a moment? It occurs to me that this committee has decided, by previous vote in the committee, that it is regular for the banks to set up inner reserves. I think the matter was argued, when all the pros and all the cons with respect to inner reserves were discussed by the committee, and after due and lengthy consideration the committee decided that the banks should continue to set up inner reserves. I do not think it is in order, Mr. Chairman, for this committee to decide that question over again. The only matter before us now is this amendment. The principle has been established, and the question before the committee is whether or not these officials of the government will have the power to question the amount or the method by which the reserves are set up. With all due respect to my friend, Mr. Slaght, I think that his discussion at the present time is entirely out of order, and that we should just consider the amendment as it is drawn up.

Some Hon. MEMBERS: Hear, hear!

Mr. SLAGHT: Speaking to the point of order, Mr. Chairman, if it is necessary—and I would not have thought that it was—the resolution the committee considered is to be found at page 626 and reads as follows:—

That the chartered banks, each of which has applied to parliament for a ten-year renewal of their respective charters should be directed, and are hereby directed and required, to disclose to parliament through this committee forthwith, the total aggregate amount of hidden inner reserves of the ten banks.

My friend cannot spell out of that any consideration by this committee of the right of each individual bank to create and deduct hidden reserves. That was as to the narrow question of our having disclosed or concealed from us, as the case might be, the aggregate total amount of inner reserves of the ten banks. Surely it cannot be said that we have discussed the matter if I am right in suggesting that the resolution of the Minister of Finance sets the seal of approval upon there being included in the charter of each bank the right to allow the directors to sit down and allocate on paper, a sum of money which is to be tax-free and call it hidden reserve. No such question has been determined by this committee. It is quite true that, in discussing the disclosure of the aggregate amount, incidentally the whole question of inner reserves had to be mentioned, and we got some light on it from time to time from witnesses. But this question of approving by statute, the continuation of the practice of an individual bank creating inner reserves, in my opinion has not been dealt with by the committee; and I desire, in connection with this amendment, to bring that question squarely before this committee, because this matter is going to go to parliament. It is not going to stop here. I should like this committee to express themselves as to whether they are individually prepared to continue the practice of hiding reserves, tax-free; then when we come to parliament, parliament will determine, if the committee adopt that attitude, whether or not parliament is prepared to set that approval on the practice, without knowing, of course, what they are.

Mr. MACDONALD (*Brantford City*): Mr. Chairman, I still raise my point of order. Notwithstanding what Mr. Slaght has said, I feel that, in discussing that motion which he referred to on page 626, this committee did accept the principle that banks should be allowed—in the interests, I believe it was, of the depositors particularly—to continue to set up what are called inner reserves. Now, then, as my friend has started a discussion with respect to inner reserves which, I suggest, Mr. Chairman, might with ease go on for days before this committee.

The question must be faced. Is this committee prepared to consider for days to come whether or not banks should continue to set up inner reserves, or did we not have the facts before us when we voted on the motion to which my friend referred.

Mr. McCANN: Nobody objects to setting them up, but the point was whether they should be exposed.

Mr. MACDONALD (*Brantford City*): The point I raise, Mr. Chairman, is that this question has, in principle, been decided by this committee, and I say we should not now reopen it and go over the whole matter again.

The CHAIRMAN: Gentlemen, we have an amendment before us, and I presume it is Mr. Slaght's right to speak to the amendment. I understand, however, that Mr. Slaght is not going to take up much of the time of the committee on this point, and then the committee will follow Mr. Slaght's suggestion and vote upon the amendment. You will not take long on this, Mr. Slaght, will you?

Mr. SLAGHT: No, I shall not take long.

Mr. Chairman, I was pointing out what might not appear on the face of this matter, unless one scrutinizes the language of the amendment, that this is setting the seal of approval for the future ten years upon the practice by the banks in not only setting aside inner reserves but, as Dr. McCann points out, I take it—I pointed it out at all events—it is approving the banks hiding from their shareholders and from parliament the amount of their inner reserves. To my mind that is not a wise course for this committee to approve. That is why I am opposing the amendment. I will schedule in a word what the amendment will permit the bankers to do.

Mr. FRASER (*Northumberland, Ont.*): On what page is that amendment.

Mr. SLAGHT: Page 627—oh, no, I do not think the amendment has been printed yet.

Mr. McILRAITH: It is printed on a separate sheet.

Mr. SLAGHT: Thank you. The amendment was printed on July 6th in pamphlet form.

Then, Mr. Chairman, what I seek to point out to the committee is this: if parliament should renew the banks' charters with this amendment in it, and if parliament does renew their charters with this amendment, the banks for the first time will have from parliament approval of this course of conduct. At the end of their fiscal year, let us take last spring, 1943, they first allot and determine with the aid of their auditors, I will assume, the amount of their actual losses incurred in operating throughout the year. There must be losses, and they have taken them—

The CHAIRMAN: Mr. Slaght, is it not possible to make your argument without repeating evidence that we have already had before us in statements you have already made?

Mr. SLAGHT: I thought the statement I had made—

The CHAIRMAN: —is not new; we have had it before, of course.

Mr. SLAGHT: Yes. Let me summarize it shortly.

The CHAIRMAN: That is the idea.

Mr. SLAGHT: I want the committee only to be aware of what we are about to authorize if we pass this amendment.

Mr. MACDONALD (*Brantford City*): I think we are all aware of it; we have followed the proceedings.

Mr. SLAGHT: Show us what the hidden reserves were in that document.

Mr. MACDONALD (*Brantford City*): I have never thought any such thing.

Mr. SLAGHT: First, they deduct their actual losses as part of the operating expenses; next they set aside, and they have the sole discretion so to do, an amount which they say they may lose in the future years.

Mr. MACDONALD (*Brantford City*): Not under the amendment. There is no sole discretion. My friend is speaking to the amendment, and that statement is not correct.

Mr. SLAGHT: And after setting that aside, it becomes tax free.

Mr. FRASER (*Northumberland, Ont.*): It only becomes tax free if—

Mr. JACKMAN: Mr. Chairman, Mr. Slaght has endeavoured from time to time—at least fifty times—to say that these transfers of the so-called insurance reserves are tax free, and surely that has been pointed out in this committee on innumerable occasions. I intend to rise every time Mr. Slaght uses the expression “tax free” because I feel he is spreading across this country from one end to the other a wrong impression with regard to the set up of certain reserves to cover contingent losses which may or may not happen; and if they do not happen the reserve then goes into the bank earnings and is taxed in the subsequent year; and it so happens that the reserve has been taxed at higher rates because of the increase in income tax. Therefore, every time Mr. Slaght refers to these hidden reserves being tax free I intend to rise and do what I can to set the record straight.

Mr. SLAGHT: My friend in rising in his honourable way forgets that Mr. Tompkins told us that never in nineteen years has anything from the hidden reserve been taken back and subjected to taxation.

Mr. TOMPKINS: In the form of a lump sum.

Mr. SLAGHT: In any form.

Mr. TOMPKINS: In the form of a lump sum.

Mr. SLAGHT: In any form. Never in nineteen years can it be visualized ever having been done.

Mr. JACKMAN: May I ask Mr. Slaght if the reverse has ever happened? Have the banks ever taken anything from disclosed reserve on which they have paid taxes and put it back into the inner reserve because its inner reserve was insufficient for the need of the banking business, and in order to give confidence to the business community and to the depositors of this country? In other words, not what Mr. Slaght has suggested has taken place but the exact opposite; the inner reserves have been insufficient; and that was amply proved in 1933 when no less than \$29,500,000 were transferred from the tax paid disclosed reserve to once again put the inner reserve in sufficient funds in order to cover the contingencies which might happen in a subsequent year. So this bogey which Mr. Slaght raises of inner reserves piling up and piling up in an ever-expanding sum, to my mind, judged by the history of the banks of this country, is entirely without foundation.

Mr. SLAGHT: I am sure the committee will recall the facts contained in my present statement, that in the year 1934 the banks—five of them—transferred from their disclosed reserve back to inner reserve \$29,500,000.

Mr. MACDONALD (*Brantford City*): I again rise to a point of order. When I raised my original point of order it was to the effect that we were then discussing a question that had already been decided by this committee. If you do not agree with me in that respect you must agree with me that the statements which are being made before this committee now have been stated ten times previously to this committee. I do not think we should continue in this manner.

The CHAIRMAN: Mr. Macdonald, all that I can do of which I know is what I have already done—to appeal to Mr. Slaght not to repeat and repeat and repeat statements that have been made time and time again before this committee.

Mr. SLAGHT: I do not propose to do that, Mr. Chairman. I recall I was interrupted by Mr. Jackman who has taken the attitude that he is going to interrupt me—

The CHAIRMAN: Let us take a fresh start.

Mr. SLAGHT: Let us do that. Of course, that is subject to his declaration that he proposes to interrupt me.

The CHAIRMAN: Only if you repeat, I understood Mr. Jackman to say that. I think we are in the clear now. I understood Mr. Jackman to say that he would only interrupt you if you repeated something you had already said; and you have already told me that you will not repeat.

Mr. SLAGHT: Then we are away.

The CHAIRMAN: Yes, we are away to a good start.

Mr. FRASER (*Northumberland, Ont.*): I hope so.

Mr. SLAGHT: Mr. Jackman endeavoured to add to the discussion by stating that these hidden reserves deducted from earnings each year are taxed. I challenge that. That is not a fact.

Mr. JACKMAN: Oh, do you want me to answer that?

Mr. SLAGHT: As Tompkins made clear.

The CHAIRMAN: Mr. Slaght, please let us refrain from that. Let us head towards a better new world.

Mr. SLAGHT: Yes.

The CHAIRMAN: And not go on repeating. I must make an appeal, and I make the appeal most sincerely, that democracy is on trial.

Some Hon. MEMBERS: Hear, hear!

The CHAIRMAN: And we must not go on with this interminable repetition on the part of a minority view.

Some Hon. MEMBERS: Hear, hear!

The CHAIRMAN: It is a minority view. The minority has the right to express itself, but surely it has no right to hold up the proceedings of the committee.

Mr. FRASER (*Northumberland, Ont.*): Too much talk and too little action.

Mr. SLAGHT: Yes. I agree that not only democracy but parliament is on trial.

The CHAIRMAN: Yes. I agree thoroughly.

Mr. SLAGHT: Yes; and the ultimate tribunal is not in this chamber.

The CHAIRMAN: No.

Mr. MACDONALD (*Brantford City*): You cannot separate parliament and democracy.

Mr. SLAGHT: Well, that is what you suggest. I offer this amendment to the amendment, Mr. Chairman, if I am in order. I may say that the word "bank" is used in the singular, you will note, because in the interpretation of the clause "bank" is interpreted to be all the banks affected. My amendment reads as follows:—

That the bank may continue as heretofore to treat as operating expenses, and deduct from gross earnings, the actual losses incurred by the bank during its fiscal year, but hereafter shall, with respect to any

sum or sums set aside or reserved out of income for future possible losses which may or may not ever be incurred—whether the same are set aside or reserved, either by way of write-down of the value of assets, or by appropriation to any contingency or inner reserve or contingent or inner account for the purpose of meeting future losses on loans or doubtful debts, or depreciation in the value of assets, other than bank premises, or for any other future contingencies which may or may not occur—be required to pay taxes thereon in the fiscal year in which the earnings from which sum or sums accrue.

I offer that as an amendment to the amendment.

The CHAIRMAN: Have you given notice of the amendment before, Mr. Slaght?

Mr. SLAGHT: No, I have not. This amendment which I am moving an amendment to has not been before the committee before.

The CHAIRMAN: The amendment has been on record for days, so I am told.

Hon. Mr. ILSLEY: Oh, yes.

Mr. SLAGHT: It may have been on the record for days, but it was handed to the members of the committee this morning.

The CHAIRMAN: Since July 4.

Mr. SLAGHT: If you want to take that as notice of motion of the amendment, that would only delay the matter.

The CHAIRMAN: No. I think we had better proceed. Gentlemen, you have heard the amendment.

Mr. FRASER (*Northumberland, Ont.*): Will you have the secretary read the amendment again?

The CHAIRMAN: The vote is on the amendment.

Mr. SLAGHT: Addressing myself to the amendment—

Mr. MACDONALD (*Brantford City*): The amendment to the amendment.

The CHAIRMAN: Yes, the amendment to the amendment.

Mr. SLAGHT: It is now to be voted on?

The CHAIRMAN: Certainly. I presume so.

Mr. SLAGHT: Then speaking to the amendment to the amendment, without repeating myself, I want the committee to realize that if they reject it, they are approving a discretion of the bank directors, unfettered and untrammelled.

Mr. FRASER (*Northumberland, Ont.*): That is not quite right.

The CHAIRMAN: Without repeating, Mr. Slaght; without repeating.

Mr. SLAGHT: In putting aside and not earmarking in any way certain earnings are of a current year, with the result that their action enables the bank to escape taxation in that fiscal year on earnings earned in that year.

Mr. JACKMAN: And pay taxes at a higher rate in subsequent years.

Mr. SLAGHT: My friend interrupts to say that the banks will pay higher taxes in subsequent years. I do not know whether he is a mind reader or not and will say that after the war taxes are to increase. We all hope that this will be the last year of the war, but the validity of his remark as affecting this problem can be tested by that. If his remark has any sense to it at all, it means that he thinks we are to have higher taxes after the war than we have before the war is over.

Mr. JACKMAN: What Mr. Slaght has just said proves what I have endeavoured to say on a number of occasions, that contrary to what Mr. Slaght has endeavoured to spread across this country, namely that the banks of Canada have escaped taxation by reason of so-called undisclosed reserves, he

now contends exactly the principle which I have maintained for some time, namely that should the taxation rates become lower in subsequent years the banks might save something. Therefore the reverse process has gone on for some years, namely that if the banks have over-reserved as Mr. Slaght has tried to point out, they have recently and are to-day paying a higher tax than they would have paid had they done exactly what Mr. Slaght now suggests. So that I hope the country will know that the banks of Canada, by reason of their conservatism and in their endeavour to keep their banking system on a sound and safe policy, thereby getting the support of business and of depositors, have paid far more in taxes than they otherwise would have done. I am glad that Mr. Slaght now sees how that happened.

The CHAIRMAN: Mr. Slaght, I think the inevitable consequence of repetition is now apparent. But I want to point out also that we do not really proceed in a very business-like way in this committee. We have here your amendment to the amendment. We had no notice of it. You made a statement that the amendment had not been circulated. I find in the printed *Hansard* of June 26, No. 22, the amendment is printed there in the record.

Mr. SLAGHT: Well, I do not know what your purpose then is in circulating it this morning.

The CHAIRMAN: That is a new edition. It is there. Take this to Mr. Slaght so he can see it.

Mr. SLAGHT: No. I do not need to see it. With reference to Mr. Jackman's interruption—

The CHAIRMAN: Please, Mr. Slaght.

Mr. JACKMAN: Oh, forget it.

The CHAIRMAN: Please, Mr. Slaght. Mr. Jackman has given us his promise not to interrupt in the matter if you do not repeat, so please do not repeat. All I can do is appeal to you, but let us get on with our job.

Mr. SLAGHT: I will conclude, then—

Mr. GRAHAM: May I say a word here?

An Hon. MEMBER: Let him finish.

The CHAIRMAN: Mr. Slaght is going to conclude.

Mr. GRAHAM: I wanted to call attention to this matter. I have to leave now in any case, but there is one thing this committee has struggled to do and that is not to unfairly or unduly prevent those with whom the majority obviously disagree from having matters they consider important brought before this committee. Mr. Slaght, in my opinion, should have given notice of motion, in fairness to the committee, of this amendment to the amendment; but he has not done so. As Mr. McGeer pointed out, it is necessary for members of the committee, because of General de Gaulle's visit, to adjourn at a quarter to 12. I suggest that Mr. Slaght's motion be taken as notice of motion, and that the committee now adjourn.

Hon. Mr. ILSLEY: Just a minute.

The CHAIRMAN: The minister has a statement to make.

Hon. Mr. ILSLEY: I do not want to break into Mr. Slaght's statement, but his statement that, by rejecting this amendment to the amendment, we would be approving of the discretion of the directors unfettered and untrammelled, to set aside earnings in any year, is incorrect; because the discretion of the directors is subject to several checks. In the first place it is subject to the check of the shareholders' auditors. In the second place, under this amendment, it is subject to the check of the Minister of Finance and the Minister of National Revenue and the Deputy Minister (Taxation). I want to add the further thought that the acceptance of this amendment would deny to the banks a right

which all other business has, namely, to set aside a reserve for bad debts and not pay taxes on it in the year in which it is set aside.

Mr. GRAHAM: Personally, I am in complete accord with the minister and in complete disagreement with Mr. Slaght; but the minister has had an opportunity of reading that amendment to the amendment and I have not, and I do not believe that the time now left to us is going to give us that opportunity. That is the reason I suggest adjourning now. I am in complete agreement with the minister, as I say.

The CHAIRMAN: Is it the pleasure of the committee to adjourn until to-morrow morning?

Some Hon. MEMBERS: Yes.

Mr. NOSEWORTHY: Cannot Mr. Slaght complete his statement?

Mr. PICARD: I support the views of Mr. Graham.

The committee adjourned at 12.40 p.m. to meet again on Wednesday, July 12, at 11 a.m.

July 12, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: When the committee adjourned yesterday we were considering clause 56. There was an amendment and an amendment to the amendment. The clause proved to be highly controversial. I understand that clause 59 is also controversial. I was wondering if, in the heat of the day, we could dispose of some of the non-controversial clauses and then come back to clauses 56 and 59.

Hon. Mr. HANSON: Can we not deal with these amendments now?

The CHAIRMAN: I thought we would try to dispose of the rest of the sections as far as we could, and then come back to them, Mr. Hanson, if that meets with the views of the committee.

Some Hon. MEMBERS: Agreed.

Hon. Mr. HANSON: If we finish those, the others will flow right through.

The CHAIRMAN: Let us do the flowing first, and see how far we get along.

Hon. Mr. HANSON: Very well.

Mr. McGEER: Before we go much further with that, Mr. Chairman, I should like to point out that there are some further questions I want to ask the deputy minister, and there are some questions I want to ask the bankers.

The CHAIRMAN: That is all right, Mr. McGeer. You will be given every opportunity.

Mr. McGEER: What is the use of being given an opportunity after the bill is passed?

The CHAIRMAN: The bill will not be passed.

Mr. McGEER: My purpose in getting these questions answered is to lay the ground work for some suggestions I think are necessary.

The CHAIRMAN: Mr. McGeer, the bill will not be passed until the preamble is carried. That is the rule of the committee or the procedure of the committee. You will be given every opportunity. The only idea that I had in mind is to see if we can discover some matters that have already been considered, and pass the sections. It will only take a short time to determine that. Then we can go back to clauses 56 and 59. Then you may have an opportunity to examine Dr. Clark or whomever you wish to examine.

Mr. JAKUES: Mr. Chairman, when Mr. McGeer is questioning Dr. Clark, I should like that privilege too. I asked you about it several times.

The CHAIRMAN: Mr. Jaques, you will be given every opportunity.

Mr. JAKUES: That is all right, then.

The CHAIRMAN: That is the understanding.

Mr. McGEER: Why cannot we take the retail men and let them get away? Why should they be kept around waiting for us?

The CHAIRMAN: For the reason that we should like to get on. It is my own idea. I assume the responsibility for the suggestion.

Mr. McGEER: We are passing the bill without the evidence.

Hon. Mr. HANSON: Order.

Mr. McGEER: That seems to be the persistent desire. I never heard of such a procedure.

The CHAIRMAN: How much evidence have we taken? How much discussion have we had?

Mr. McGEER: If you call interference evidence, we have had quite a lot. We have never touched on a single item of the actual cost to this country of the private banking monopoly. That is the most important thing this committee should consider before it touches one section of this bill. That has never yet been considered; and every time we come up to it, out went the witness.

Hon. Mr. HANSON: Yes, we did touch it.

Mr. McGEER: No, we did not.

The CHAIRMAN: Order, please. You had at least two days almost to yourself, Mr. McGeer, at the commencement to examine the Governor of the Bank of Canada in regard to these matters. We have had a great deal of interference; and I would ask you to read the record and decide as to the responsibility for that interference.

Mr. McGEER: I am perfectly willing to assume mine.

The CHAIRMAN: Yes. Then may I call clause 59? I beg your pardon. We leave clause 59 stand. Clause 61.

Mr. GRAHAM: On section 61, the minister suggested a slight amendment, a change in the word "five" to "thirty" at the bottom.

The CHAIRMAN: With that amendment, is the clause carried?

Some Hon. MEMBERS: Carried.

An Hon. MEMBER: What is the section?

The CHAIRMAN: Section 61.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Is the amendment carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Is the clause as amended carried?

Mr. McGEER: Just a minute.

The CHAIRMAN: Section 61 is carried. Section 64.

Hon. Mr. HANSON: Before you leave that—

Mr. NOSEWORTHY: Just a minute.

Hon. Mr. HANSON: Just what is the effect of the amendment?

The CHAIRMAN: I will ask Mr. Tompkins to answer that.

Mr. TOMPKINS: The effect of the amendment is simply to allow a little more latitude for completing the transfer to the Bank of Canada funds to redeem the amount of outstanding notes as at January 1, 1950.

Hon. Mr. HANSON: Where is it?

Mr. McGEER: What is the change?

Mr. TOMPKINS: Page 33, line 25.

Mr. ABBOTT: Line 25 on page 33, delete the word "five" and substitute the word "thirty".

Mr. TOMPKINS: It was felt that five days would very likely prove an inadequate time to complete the transfer.

Hon. Mr. HANSON: All right. Carried.

The CHAIRMAN: Carried.

Mr. McGEER: Wait a minute.

Mr. NOSEWORTHY: Where do you get the five days?

The CHAIRMAN: Mr. McGeer has the floor.

Mr. McGEER: I should like a little further explanation of the change from five to thirty days.

Mr. TOMPKINS: After January 1, 1950, the banks will be required to pay over to the Bank of Canada the total amount shown by their books to still be outstanding of their various note issues. The Bank of Canada will thenceforth be responsible for the redemption of those notes. The change from five to thirty days, as I say, was simply made as a precautionary measure because of unforeseen delays that may result, through delays in mail service or for various other reasons, in completing all the formalities of the transfer.

Hon. Mr. HANSON: The effect of this is just an extension of time to complete the transaction?

Mr. TOMPKINS: That is exactly it.

Hon. Mr. HANSON: The principle involved here is that the banks must pay over to the Bank of Canada the amount outstanding of the note issue. It will not alter the amount of their liability.

Mr. TOMPKINS: The situation simply is that upon turning it over to the Bank of Canada funds for the amount outstanding, the Bank of Canada will thenceforth be liable for and will redeem these notes.

Hon. Mr. HANSON: I understand that. But what will the effect be upon the bank's balance sheet?

Mr. TOMPKINS: It will simply wipe out that amount on their balance sheet.

Mr. SLAGHT: They have five days instead of thirty days?

Mr. ABBOTT: Yes.

Mr. SLAGHT: It gives them a little more clerical time.

Mr. ABBOTT: That is it.

Hon. Mr. HANSON: Let me understand it. The effect of this whole section is that in the case of loss of the issue of bank notes, the banks have got to pay, and the Bank of Canada just walks in and takes over?

Dr. CLARK: Absolutely.

The CHAIRMAN: Shall the clause carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 64, bank circulation redemption fund.

Hon. Mr. HANSON: Is there any amendment to that?

Mr. NOSEWORTHY: I should like an explanation from Mr. Tompkins as to the effect of that clause.

Mr. TOMPKINS: The changes are consequential upon the cessation of the issuance of notes by the chartered banks. This particular section 64 has to do with the bank circulation redemption fund which is, as honourable gentlemen know, a sort of mutual guarantee of the various bank note issues, and consists of a deposit with the minister. The amendments to this section are simply consequential on what occurred under section 61.

The CHAIRMAN: Shall the clause carry?

Mr. McGEER: Of what happened under what section?

Mr. ABBOTT: Section 61.

The CHAIRMAN: Shall the clause carry?

Mr. McGEER: Just a minute.

Mr. ABBOTT: This is consequential to what happened under section 61, the turning over to the Bank of Canada of the liability in an amount covering the banks' outstanding notes.

Mr. McGEER: That amendment to section 61 provides for the transfer of the bank note circulation of the banks?

Dr. CLARK: Not the amendment, but the section itself. The amendment, as Mr. Slaght has said, extended the time from five days to thirty days, to cover the clerical job of looking after the transfer.

Mr. SLAGHT: Let the clerks get back from their New Year's vacation.

Mr. TOMPKINS: Right.

Mr. PERLEY: Does this empower the banks to make a special issue to take care of any special circumstances such as, for instance, the marketing of the wheat crop in western Canada?

Mr. TOMPKINS: That 15 per cent excess circulation privilege has ceased already. That ceased when the Bank of Canada commenced business.

The CHAIRMAN: Shall section 64 carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 75.

Mr. McGEER: I think this should stand.

The CHAIRMAN: Section 88. Mr. Hanson has an amendment.

Hon. Mr. HANSON: I am not particular about my amendment. I withdraw it, because it arises out of a special case. I have been trying to invent a formula in my mind that might be helpful, but I do not think my proposed amendment will be helpful.

The CHAIRMAN: I think we will allow it to stand and give you further time.

Hon. Mr. HANSON: Very good.

The CHAIRMAN: Section 89.

(Stands)

Section 90.

(Stands)

Section 91.

Mr. PERLEY: I have an amendment filed with you.

The CHAIRMAN: We will allow it to stand.

Section 92.

(Stands)

Section 93. I think that is a routine section.

Mr. TOMPKINS: Sections 93 and section 94 are both routine.

Mr. GRAHAM: There are two amendments proposed by the minister on section 92.

The CHAIRMAN: Section 92 and section 93 will stand.

Hon. Mr. HANSON: It is a service charge, is it not?

Mr. McGEER: Section 93 and section 94 should stand.

(Stands)

The CHAIRMAN: Section 97.

Mr. JACKMAN: I spoke on that section the other day.

The CHAIRMAN: Is it controversial, do you think?

Hon. Mr. HANSON: I think we all agreed to it.

Mr. JACKMAN: I think we almost carried that the other day.

The CHAIRMAN: Carried as amended.

Section 112.

Mr. GRAHAM: On that section I think it might be well to ask Mr. Tompkins, who should be particularly well informed with regard to the returns made by the banks, whether he considers they are sufficient for your purposes and for the purposes which we want to safeguard.

Mr. TOMPKINS: Yes. I may say, Mr. Chairman, that very careful consideration was given to possible changes in the returns before the bill was introduced in the house and the present schedule printed. Mr. Slaght requested an amendment to section 53 which would have the effect of splitting up the bank's holdings of dominion and provincial securities under a separate heading. Now, that will also come in under this section, and I think under those circumstances—and this is the only point that arises in my mind with regard to it—that this section should stand.

Mr. McGEER: In connection with these returns, assuming that the expressed sentiment of the majority of the committee is carried and enacted into law, namely, that inner reserves are going to be recognized, and the power of the minister is going to be extended, as substantiated by the purport of the amendment proposed, to limit the amount of hidden reserves to what the minister and his officials consider necessary—that is the purpose of that amendment is it not?

Mr. TOMPKINS: Mr. McGeer, the minister's amendment comes under section 56. I think we might have more orderly progress by reverting to it when we are discussing that section again. This is a monthly return.

Dr. CLARK: I think the minister's amendment to section 56 is to make it legally, rather than morally, incumbent upon the Minister of Finance, to inform the Minister of National Revenue and the Deputy Minister of National Revenue for taxation whether in his opinion the amount being set aside to reserves in any case is excessive, and if he thinks it is excessive, the amount of such excess.

Mr. McGEER: Purely for taxation purposes.

Dr. CLARK: Yes.

Mr. SLAGHT: I do not agree with Dr. Clark that that is all it does.

The CHAIRMAN: We will come back to section 56 particularly.

Mr. McGEER: What I had in mind was this: I judge from the evidence that has been given here that two banks are presently holding excessive inner reserves and one bank is on the borderline and the remaining seven banks—their position is not disclosed—that is, I think, the correct interpretation of the evidence so far with regard to that phase of the inquiry's investigation. Now, what power have you got to show that the hidden reserves are adequate for the purpose that they are supposed to sustain?

Hon. Mr. HANSON: In other words, have you power to bring them up to that?

Mr. McGEER: I think if you are going to adopt the policy that the inner reserve is security for depositors, there should be a standard basis upon which that security should be maintained, and I suggest that in the returns that should be such and the officials of the government, I think, should not only know whether the inner reserves are excessive but whether or not they are adequate; and I do not think that these returns cover that phase of banking operations.

Hon. Mr. HANSON: That is an interesting question; it has some merit.

Mr. TOMPKINS: I think that is implied quite definitely in the clauses relating to investments and loans, where in the case of investments they are required under the return—under the wording of this return—to report their investments at not exceeding the market value, and their loans with the estimated losses provided for. That is definite in the schedule to the annual statement, too, which is certified to by the auditors, and is accompanied by certificates by the auditors to the effect that it shows the true position of the bank and is as shown by the books.

Mr. McGEER: I take it that in the profit and loss account of the annual statement the progressive accumulation or progressive position is shown and would always include whatever amount is in the inner reserves?

Mr. TOMPKINS: We have explained before that whatever amount is in inner reserves is deducted from certain of the assets and the net of those assets are shown in both annual and monthly statements.

Mr. McGEER: Yes, I know that; but the evidence also showed that when there was a certain amount of operating expenses that that was deducted from the gross operating gains and that gross operating gains to expenses showed the amount in the inner reserves.

Mr. TOMPKINS: That has been read into the record several times—the wording used by the banks in their annual statement—where in their profit and loss accounts reporting the net profit for the year they report the net profits for the year after provision for taxes and so forth, and after making appropriations to contingent accounts out of which accounts full provision for bad and doubtful debts has been made. That phraseology follows almost precisely the phraseology used by British banks in submitting similar statements.

Mr. McGEER: I understand that phraseology. The point I want to get at is whether in this return there is given to you the information upon which could be determined whether or not the inner reserves are excessive or whether or not they are inadequate.

Mr. TOMPKINS: Well, that is a matter of judgment, I would say.

Mr. McGEER: I mean, do you get the return?

Mr. TOMPKINS: Oh, yes. I see every monthly return.

Mr. McGEER: You see, what I am assuming is this. Following the investigation that was carried on by the minister, yourself and other officials, there were certain facts disclosed upon which certain conclusions were made. That is right, is it not?

Mr. TOMPKINS: Yes.

Mr. McGEER: And one of those conclusions was that two of the banks had excessive inner reserves.

Hon. Mr. HANSON: That was a matter of opinion.

Mr. TOMPKINS: That is a matter of opinion.

Mr. McGEER: I mean, in the opinion of the officials.

Mr. TOMPKINS: Quite so.

Mr. McGEER: Prior to that you had informed the committee, as Inspector of the Canadian banks, that you were satisfied that the inner reserve position was alright and that you had no fault to find with it.

Mr. TOMPKINS: Yes.

Mr. McGEER: So from that I can only assume that, during the course of the investigation conducted by the minister for some nine or ten days, other facts came to light which were not in your possession when you informed the committee that you were satisfied with the inner reserves.

Mr. TOMPKINS: No.

Mr. JACKMAN: Mr. McGeer, if I may point it out, the minister said that the disclosure as to over-reservation only came about after the turn of the year and in view of subsequent facts which were not available as of December 31; so that the banks, as far as we know, reserved only the proper amounts, but in view of what happened since, in the judgment of the minister he thinks perhaps there has been over-reservation.

Mr. SLAGHT: No, no.

Mr. McGEER: I do not think I would agree with my honourable friend.

Mr. McILRAITH: The witness started to answer when he was interrupted. I would suggest that he be allowed to answer.

Mr. McGEER: Would you direct your attention to Mr. Jackman in that regard, and for once have a little of the interference over that way.

The CHAIRMAN: Go on.

Mr. McGEER: Would you mind answering me?

Mr. TOMPKINS: I have rather lost the thread of the question, but I think your question was to this effect, that some new facts had developed to cause me to change my opinion with regard to the inner reserves. Is that right?

Mr. McGEER: Yes.

Mr. TOMPKINS: No. I would simply say that the whole situation was reviewed carefully by the officials whom the minister spoke of; and as a result of that review of the situation we came to certain conclusions, and those represented our unanimous conclusions on the matter.

Mr. McGEER: Which were entirely different from the conclusions you presented to the committee.

Mr. TOMPKINS: Not entirely.

Mr. McGEER: Well, substantially.

Mr. TOMPKINS: No, not substantially. I would say somewhat different, but not substantially or entirely different.

Mr. McGEER: Well, all right. Can you tell the committee that it was the unanimous conclusion of the investigating tribunal, whoever composed it, that all the inner reserves of all the banks are adequate for the purpose?

Mr. TOMPKINS: Well, of course there is a varying degree there. We might like to see some of them higher than they are, perhaps; but so far as the safety of the public is concerned and that sort of thing, I would say that the situation is satisfactory.

Hon. Mr. HANSON: Did he not say that they were not excessive?

Mr. TOMPKINS: I think the minister's statement used those words.

Mr. McGEER: Oh, yes.

Hon. Mr. HANSON: Not excessive. He did not say they were adequate, but that they were not excessive.

Mr. McGEER: Yes. I am going to put it to you quite plainly that not more than three of the banks have, in proportion to those three, substantial inner reserves.

Mr. TOMPKINS: Well, that is hardly putting it in a fair way, is it? They all have inner reserves in varying proportions. One could not expect them to be all precisely the same.

Mr. McGEER: No. But I would think, Mr. Tompkins, that a parliament, accepting the principle of inner reserves as a security for depositors, would have a uniform level.

Mr. TOMPKINS: I do not believe, Mr. McGeer, that you can establish a uniform formula that would necessarily be suitable for individual banks. It would depend upon the condition of each individual bank, the proportion of its assets represented by loans, the type of loans in a particular case, the proportion that is represented by its investments, including not only the type of investment but maturity factors and interest rates and so forth, and diversification in general. There is also another factor, the wide difference that exists in the territory covered by individual banks. I do not think it is possible to establish by statute or by regulation, if you like, a formula that will be suitable to every bank; that is, one single formula.

Hon. Mr. HANSON: In other words, you cannot establish a standard?

Mr. TOMPKINS: No.

Mr. McGEER: I quite agree with you on that. That, of course, applies with equal force to the decision as to what is excessive.

Mr. TOMPKINS: Quite.

Mr. McGEER: But you have determined that.

Hon. Mr. HANSON: They expressed an opinion.

Mr. McGEER: Well, they are the gods of power; and when they express an opinion, it becomes law.

Hon. Mr. HANSON: Well, maybe.

Mr. SLAGHT: They reported it to the Minister of Taxation.

Hon. Mr. HANSON: I agree.

Mr. SLAGHT: Upon which to levy taxes.

Hon. Mr. HANSON: After all, it is only an opinion.

Mr. McGEER: Whatever they think, and whenever the ministry acts on it, it becomes law. Is it not possible to fix some minimum basis?

Mr. TOMPKINS: I say again that it might be possible to establish a minimum with regard to each individual bank, after taking their own particular situation into careful consideration. But I do not believe it is practicable to establish a standard or a formula by statute that should be applicable to everybody.

Mr. MACDONALD (*Brantford*): That is, either one way or the other.

Mr. McGEER: I quite agree. Then if we are to have any security for the depositors from inner reserves, you have the information in all its details as to the territory of operation, as to the character of the loans outstanding, as to the nature of trade and conditions in the areas where the operations are being carried on.

Mr. FRASER (*Northumberland*): And the type of collateral.

Mr. McGEER: And the type of collateral and all that goes into the need or otherwise of those inner reserves. You have that all placed before you.

Mr. TOMPKINS: I have all the information.

Mr. McGEER: You have all that information now?

Mr. TOMPKINS: It is all available to me from time to time.

Mr. McGEER: The amazing part of it is this. If you had all that information, I cannot understand how you could tell this committee on one day that the inner reserves were all right and satisfactory and then, after an investigation, come back and tell the committee that the reserves of two banks were excessive and one was on the border line and the others were not excessive but not telling us whether or not they were adequate throughout.

Mr. TOMPKINS: Well, again I say that is a matter of judgment; and when you get three or four heads sitting together on matters of that kind one can, I suppose, change his mind with regard to certain phases of the situation. I

found it very helpful to go over the situation in detail with the other officials mentioned by the minister in his statement, and we reached the combined conclusion, after carefully studying all aspects of the situation, that was indicated by the minister's statement. I have no apologies to offer.

Mr. McGEER: Were the banks called into that conference?

Mr. TOMPKINS: No. There were no banks at that conference.

Mr. McGEER: You had all that information, you say?

Mr. TOMPKINS: I had that in my possession.

Mr. McGEER: You had it before you?

Mr. TOMPKINS: Yes.

Mr. McGEER: And you say that all of the information that was necessary for you to decide whether the reserves were adequate or excessive, was before you when you first appeared before this committee?

Mr. TOMPKINS: Yes.

Mr. McGEER: And that no further information was secured from the banks?

Mr. TOMPKINS: Yes.

Mr. MACDONALD (*Brantford*): I understood Mr. Ilsley to make a contrary statement, that further information came subsequent to Mr. Tompkins' former statement.

The CHAIRMAN: No.

Mr. McGEER: Mr. Jackman just made that statement.

Mr. MACDONALD (*Brantford*): I should like to get that cleared up. I am not objecting.

Mr. SLAGHT: Mr. Ilsley did not say that.

Mr. JACKMAN: Mr. Chairman, if Mr. McGeer would refer to Mr. Ilsley's statement—

Mr. McGEER: I am not referring to Mr. Ilsley's statement. I am referring to yours. What you said was that beyond the information in the returns, new information not yet returned officially, had been supplied to the minister.

Mr. JACKMAN: New things had happened subsequent to December 31; and if you like to know what they are—

Mr. McGEER: What new things?

Mr. JACKMAN: I will tell you exactly if you will give me a moment. Here is the minister's statement. It says:

Moreover I must admit that we are now acting with the advantage of hindsight to some extent—in other words we have formed our judgment in the light of recent favourable developments, including particularly the declared policy of the Bank of Canada and the government to maintain a low level of interest rates after the war. That development which was announced only in February of this year was not foreseen when the bank managements and auditors had to reach their decision in the latter part of 1943.

Hon. Mr. HANSON: There is the answer.

The CHAIRMAN: Shall we allow the clause to stand until we consider clause 56? There seems to be quite a bit of argument.

Mr. GRAHAM: It should stand, Mr. Chairman, I should think.

The CHAIRMAN: The clause stands, then.

Mr. GRAHAM: I was going to say to Mr. Tompkins that the clause should stand for this reason. We do not know what amendments will be made until we are through with the revision of the Bank Act. Some returns might be called

for or some new amendments made, and I think it is well to leave it in your hands and to ask you to follow the amendments and see if any changes in that section are necessary.

The CHAIRMAN: Section 117.

Mr. NOSEWORTHY: I notice in section 117 there is one omission explained on the page opposite page 66. For instance, the words "at branches or agencies in Canada" have been inserted, and they have been inserted because balances elsewhere than in Canada are the concern of the countries in which they are situated. This means that in future returns no return will be made of the banks' foreign business?

Mr. TOMPKINS: That is correct.

Mr. NOSEWORTHY: That is correct?

Mr. TOMPKINS: Yes.

Mr. NOSEWORTHY: And that the banks have been making a return showing their foreign business heretofore?

Mr. TOMPKINS: They have, for a great many years. But it is quite obvious, I think, that the deposits outside of Canada are subject to foreign jurisdiction; and there seems to be no purpose, for the information of the Canadian people, in reporting these deposits to the minister each year. The extent to which they may be published or a return given to the government in other countries is a matter of regulation by those countries.

Mr. MACDONALD (*Brantford*): Yes, but the liabilities in the other countries would affect the position of the banks in Canada.

Mr. TOMPKINS: Oh, of course. But these deposits are all shown as liabilities of the banks in their statements here. "Elsewhere than in Canada" is the heading under which the amounts are reported.

Mr. McGEER: Mr. Tompkins, in the light of the changes that have been made in the control of international exchange, where we are controlling international exchange and providing for it, do you think that it is wise to have our banks in Canada extend their operations to foreign countries?

Mr. TOMPKINS: I think that, inasmuch as those operations are financed by the moneys that they take on deposits in foreign countries, it has been advantageous in many ways to Canada, particularly to Canadian trade.

Mr. McGEER: Yes.

Mr. TOMPKINS: I think it has served to facilitate Canadian trade with many of the foreign countries such as the West Indies, South America and elsewhere.

Hon. Mr. HANSON: Well, it brings profits into Canada.

Mr. TOMPKINS: Yes, it does, too. They are a profitable source of business.

Mr. McGEER: They have been a profitable operation throughout?

Mr. TOMPKINS: I would say so, in the aggregate, yes.

Mr. McGEER: But today, with controlled foreign exchange, the necessity, from the Canadian trade point of view, for the banks doing this is not nearly as great as it was before?

Hon. Mr. HANSON: Oh, I do not know. Why do you say that?

Dr. CLARK: I would not think that would follow. I cannot quite follow the logic there. The advantage to Canadian trade has come, I should think, from the fact that Canadian banks are represented and doing a substantial volume of business down in countries like the West Indies, or South America, which are important markets for our trade; and they can facilitate the business of our exporting interests and, to a degree I suppose, of our importing interests, but primarily on the exporting end.

Mr. McGEER: Yes. But to-day our foreign trader depends upon the Foreign Exchange Control Board not only for the supply of his foreign exchange but for the use of it and the extent of it, does he not?

Dr. CLARK: Well, he buys and sells his foreign exchange through the Foreign Exchange Control Board; but I do not think that affects the facilities which are given to Canadian trade by the presence of Canadian banks in markets in which we are interested from the export end.

Mr. McGEER: I see.

Dr. CLARK: I do not think there is any less ability to promote Canadian trade as a result of foreign exchange control.

Mr. McGEER: I may be wrong about it, but I had understood that, prior to the establishment of the Foreign Exchange Control Board, we depended pretty much upon the bill market of New York and to some extent and in a lesser degree, I believe, on the bill market in London, for the financing of our international trade.

Dr. CLARK: Oh, to some extent; but not wholly so.

Mr. McGEER: I understood that was one of the reasons for the maintenance of a fairly large call loan business on the New York Exchange; I mean, it was a very liquid security which could be converted into foreign exchange readily. That was one of the purposes of it?

Dr. CLARK: It was part of their liquid reserves, clearly liquid reserves of the Canadian banks.

Mr. McGEER: And also Canadian foreign exchange requirements could be facilitated by the conversion of those call loans into whatever foreign exchange was required in a market where foreign exchange was available?

Dr. CLARK: I would not think that would be the primary motive.

Mr. McGEER: Oh, no; but it was one.

Dr. CLARK: Yes. That probably facilitated it.

Mr. McGEER: To-day we have changed that. We have set up a foreign exchange market in our Foreign Exchange Control Board.

Hon. Mr. HANSON: To control rates.

Mr. McGEER: I mean, that is the way we are doing today, is it not?

Dr. CLARK: Yes. The Foreign Exchange Control Board buys and sells all foreign exchange.

Mr. McGEER: And any importer bringing goods into Canada must go to the Foreign Exchange Control Board to get his foreign exchange requirements to pay for it?

Dr. CLARK: That is right.

Mr. McGEER: I mean, that is an entirely new order, a product of this war?

Dr. CLARK: That is quite true.

Mr. McGEER: And I think you will agree with me that if we are going to stabilize our foreign exchange in the future, we are not going to abandon that institution?

Hon. Mr. HANSON: That is a matter of policy.

Mr. McGEER: Quite possibly. Just a minute. If we are going to abandon it, let us know it.

Dr. CLARK: I would certainly think not for some time; certainly not in respect of capital transactions.

Hon. Mr. HANSON: I cannot hear you, Dr. Clark.

The CHAIRMAN: A little louder, Dr. Clark, please.

Dr. CLARK: I was saying to Mr. McGeer that I thought his statement was correct, at least in respect of capital transactions. I think it will be necessary for some time after the war at least, to maintain foreign exchange control. But I would not like to forecast that we would have to do it forever or would want to do it forever. I would not like to forecast anything like that.

Mr. McGEER: No. I mean, as far as we can foresee the future, it may continue.

Dr. CLARK: It may.

Mr. McGEER: It looks like a stabilizing institution for the future both of the international and internal trade of the dominion.

Dr. CLARK: Yes.

Mr. McGEER: You would agree with that?

Dr. CLARK: I think that is so.

Mr. McGEER: And until we pass to a period when we can see that it is no longer valuable, it will remain?

Dr. CLARK: I think that is so.

Hon. Mr. HANSON: Mr. McGeer, may I ask a question. This discussion arises apropos of the proposed change in section 117 (1) where the words "at branches or agencies in Canada" are inserted in subsection (b). Do I understand that your position is that the Canadian banks should have no branches outside of Canada? Was that your original proposition?

Mr. McGEER: I was rather questioning the need of them from the point of view of foreign exchange. There may be other reasons for their justification. According to my own way of thinking if our chartered banks are going to continue to be the banks of issue of a substantial portion—in fact the main medium of exchange of both government and the people of Canada—then I would question the wisdom of foreign operations of that type in Canadian banking. But in the case of a purely commercial bank, I can see no reason why they should not operate wherever they want.

Dr. CLARK: I think there is no tendency to expand these foreign operations at the moment. I do not think there is any probability of them expanding. It is a situation that developed in the past. I think it has brought very considerable advantages to Canadian trade in the past. It has brought some profits into Canada in the aggregate. It has given a good deal of pretty good advertising to Canada; it has also been a direct factor in promoting the interests of Canadian trade. I do not see any tendency to expand at the moment or any likelihood that there will be any expansion in the development of foreign—

Mr. McGEER: Of course, we remember one case where one of our banks got into pretty serious trouble with the sugar market in Cuba; you will recall that instance—and you may recall another instance where one got into pretty serious trouble with the Mexican Light and Power. What I am putting up to you is this: do you think it is advisable that if our chartered banks are going to continue to be the banks of issue of the medium of exchange of the government and the people that we should allow those Canadian banks to expand their operations to foreign countries?

Dr. CLARK: Do you mean "banks of issue" in the ordinary sense? We are stopping them being banks of issue.

Mr. McGEER: Banks of issue of the medium of exchange, which is the bank deposits and currency—that is the medium of exchange we now desire—

Dr. CLARK: Yes, but a bank of issue would be interpreted by most people as a bank which has the right to issue notes. Now, we are taking away from the Canadian banks the right to issue notes.

Mr. McGEER: I agree; but we are extending to the banks a continuation of their power to issue bank deposits which are liabilities of the bank.

Dr. CLARK: Quite so.

Mr. McGEER: Which are used as a substitute for Canadian money. That is what we are doing.

Hon. Mr. HANSON: Not in foreign countries, because they do not use that.

Mr. McGEER: In Canada. We are doing that; and apparently as this committee is now indicating and as your department indicates, that is going to be continued, so we will have Canadian banks that issue their liabilities as a substitute for Canadian money to be used as the Canadian medium of exchange by both government and the people, and at the same time carrying on operations which may or may not be profitable in foreign countries under the laws as they exist in those foreign lands.

Dr. CLARK: What is wrong with that in your view?

Mr. McGEER: I would say that the liabilities of that operation—or the profits, would be a liability or an asset of the Canadian banks.

Dr. CLARK: Yes.

Mr. McGEER: In Canada.

Mr. TOMPKINS: Not in Canadian dollars.

Mr. McGEER: If it is American dollars, we will say, as a profit, that would be a 10 per cent advantage; if it was American dollars as a liability it would be a 10 per cent increased liability over American dollars; but whatever the liability was, whether it was in American dollars or in any other form of money, it still would be a liability on the assets of the Canadian banks in Canada.

Hon. Mr. HANSON: In the gross.

Mr. McGEER: Yes, in the gross.

Dr. CLARK: In the aggregate I think the foreign business of our banks has produced a profit; it has resulted in bringing the profits into Canada. In the second place it has certainly been an important factor in the development of our trade, both directly through the credit facilities provided and indirectly through the general advertising and goodwill it brought to Canada as a result of the fact that our banks have been very efficient institutions, providing efficient banking services in those communities. There are many cases where they provide the only banking facilities available. The people of those countries are served by Canadian banks and that builds Canada up, and has helped to build up Canadian foreign trade, I think. Now, as I said, I do not see any tendency to expand. I would think it would be very unlikely that they would expand their facilities in those foreign countries; but my own personal view, for what it is worth, would be that I would prefer not to see them expand further, particularly because we have in most countries of the world a growing tendency for the governments to see that their banks and other institutions are their own national institutions.

Mr. McGEER: Yes, that is what I understand.

Hon. Mr. HANSON: Following that up, is it not a fact that in certain foreign countries they rather welcome this advent?

Dr. CLARK: Yes, they have in the past.

Hon. Mr. HANSON: Take the case of Caracas, where on one corner you have a Canadian bank, on the other corner the National City Bank, and the Government of Venezuela welcomes the Canadian bank because it serves as a counter element to the national system.

Dr. CLARK: I think that is true.

Hon. Mr. HANSON: And they finance the bank on local deposits; they do not use any Canadian currency, they use American currency, except for internal trade.

Mr. SLAGHT: Dr. Clark, I listened to your reply to Mr. McGeer, and may I say that in Nassau, Jamaica, and Havana, Cuba, where I have had personal experience with Canadian banks, I understand your point that they are excellent advertisements for Canada in the fact that they are operating there and that they facilitate trade between those countries and Canada. I am in accord with you that they serve that useful purpose. I believe our banks are displaying courage in getting into sixteen foreign markets. But I want to put this to you: the statistical summary of the Bank of Canada as of the end of April, 1944, shows that we have invested abroad in call and current loans, a total of \$197,000,000. Now, I looked back to 1926, and I found that we had or that our banks had invested abroad \$511,000,000, so there is in their discretion a wide margin of variance as to their foreign investments.

Assuming that we do not amend section 59 and leave it as it is—and you know by this time that I desire as far as I am concerned to bring about an amendment of section 59 by raising the present 5 per cent cash reserve to 100 per cent—if we leave it as it is, is there anything to prevent our chartered banks in Havana, Cuba, purchasing \$100,000,000 issue of securities issued by the government of Cuba in Havana and doing it by making a bookkeeping entry in their books—purchasing that \$100,000,000 and locking the Cuban bonds up in their vaults and then crediting the Cuban government, or the Minister of Finance, with a credit entry made by pen and ink whereby they become depositors, let up say, of the Royal Bank in Cuba to the extent of \$100,000,000? Is there anything to prevent what I outline from happening under the present situation if we leave section 59 as it is?

Mr. TOMPKINS: Section 59 as it now reads, or as it is in the Act at the present time, attempts specifically to regulate the reserve for Canada at 5 per cent of deposit liabilities. It provides in a general way that the bank shall also maintain in the Bank of Canada or elsewhere adequate reserves against liabilities elsewhere than in Canada and to furnish such information as may be required by the minister from time to time to satisfy him that such reserves against liabilities elsewhere than in Canada are so maintained. One reason for the general language of the latter part of that section is that in certain of the foreign countries reserve requirements are set by local authority, local government, by statute or decree or something like that, and very frequently they provide for a certain percentage of the reserve being held in notes of the national bank or in deposits in the national bank.

Mr. SLAGHT: It is not so in Cuba.

Mr. TOMPKINS: There are certain reserve regulations in Cuba at the moment, but I confess I would not like to give them offhand; I prefer that you get that from one of the banks represented there. I would not like to trust my memory to put them accurately on the record.

The CHAIRMAN: Mr. Slaght, how far does this argument affect section 117?

Mr. SLAGHT: It does not, but we have been spending a half hour on section 59. I think we have all been trespassing. My desire was to get on with the section we are on.

The CHAIRMAN: Let us come back to section 59.

Mr. SLAGHT: Perhaps Dr. Clark and Mr. Tompkins could turn that matter over in their minds. I am genuinely concerned if this committee and parliament are going to leave the banks that right by making bookkeeping entries against

only 10 per cent or 20 per cent and not amending section 59, then I think there is need for forbidding that kind of inflationary issue as the medium of exchange in foreign countries for financing foreign governments and foreign industries.

Mr. NOSEWORTHY: I should like to get this point cleared up. Granted that one of our banks in carrying on business in a foreign country incurs heavy losses there, just how does that affect the responsibility of the Bank of Canada for that bank or for the security of Canadian depositors?

The CHAIRMAN: I am afraid really that does not come under section 117. We will come back to that.

Mr. McGEER: Let us find out what amendments we are going to produce and we will probably get along better.

The CHAIRMAN: Section 129.

Mr. MACDONALD (*Brantford*): Is this the double liability clause?

The CHAIRMAN: Yes, a liability of shareholders.

Mr. McGEER: Could we have a word from Dr. Clark as to what form of security is going to take the place of this double liability of the shareholders? Is anything coming into being to substitute for that?

Hon. Mr. HANSON: Single liability.

Dr. CLARK: No, there is nothing coming into being in substitution for that. I think the double liability of shareholders was regarded as a protection of the note holders. Remember that the note holders in Canadian banks have always been subject to several very special provisions to make sure they would be protected against losses, and all through the history of Canadian banking the note holder has been almost absolutely secured against loss. I think there are only one or two exceptions to that statement. When the note issue was begun to be taken away from the banks in 1934 the double liability or the excess liability was reduced, *pari passu*, with the reduction in the notes that the banks could have outstanding. This merely continues automatically that philosophy, if you like, of that program.

Mr. McGEER: There is another point of view with regard to that note issue and the double liability, is there not? Namely, that the banks enjoy a privilege which other corporations do not enjoy.

Dr. CLARK: That is right; they were in the banking business.

Mr. McGEER: Yes, but just a minute. The bank had the right to use whatever capital was subscribed by its shareholders as its capital in the carrying on its business?

Dr. CLARK: That is right.

Mr. McGEER: Up to that point the bank was in the identical position of any other corporation doing business in Canada with regard to the use of capital?

Dr. CLARK: That is right.

Mr. McGEER: Now, by law the bank was given power to issue under certain restrictions its own money?

Dr. CLARK: Notes, you mean.

Mr. McGEER: Money—Canadian money, and use it as such?

Dr. CLARK: I am not sure whether you mean notes or deposits.

Mr. McGEER: I mean notes. They were given the express privilege of issuing money?

Dr. CLARK: That is right.

Mr. McGEER: Up to the value of their paid-up capital?

Dr. CLARK: That is right.

Mr. SLAGHT: \$135,000,000.

Mr. McGEER: The amount does not matter. So that the bank shareholder had the benefit of the use of his own capital and the money issued up to the value of that note liability; so that where another corporation could only use \$1 of capital the banking corporation could use \$2?

Dr. CLARK: Yes, but is not the issue of notes a form of borrowing, and has not any business corporation the right to borrow and increase the amount of capital it employs?

Mr. McGEER: Can you tell me any other corporation in Canada that has the power to issue its own money?

Dr. CLARK: No. What I did say was that the power of issuing of notes was a form of borrowing on demand from the public, and I say that other corporations have the right to borrow, and they do issue notes, debentures, bonds, and increase the amount of capital employed in some cases many times the amount of the shareholders' equity capital.

Mr. JAKES: Not interest free?

Dr. CLARK: No.

Mr. McGEER: The banks have that power.

Dr. CLARK: There were certain charges on the power to issue notes—

Mr. JAKES: Interest free?

Dr. CLARK: Oh, no.

Mr. SLAGHT: You emphasized previously that those notes originally up to \$145,500,000 were a liability of the bank.

Dr. CLARK: Certainly. So is a debenture or a bond issue.

Mr. SLAGHT: Wait a minute. These notes were a liability of the bank. Someone said to me afterwards, "that is the kind of liability I should like to have my pocket full of."

Dr. CLARK: I would not.

Mr. SLAGHT: They get the paper to the bank and they turn the crank and they print a million dollars of Bank of Commerce or Royal Bank notes, and what do they do? They lend it at 5 or 6 per cent interest and it only costs them half a cent to create. Do you call that the kind of burden that anyone would not take in business? No business man can do that.

Dr. CLARK: Let us look at it. They issue these notes. They constitute a liability of the banks, a debt due by the banks, and the moneys that they raise in that way they can use in their business and they make a certain modest return.

Mr. SLAGHT: It is money, sir; it is created.

Dr. CLARK: It is a liability of the bank necessarily which the public are prepared to accept universally. That is why it is money. Now, the ordinary business corporation sells a bond issue or a debenture issue at 3 or 4 or 5 per cent and increases the capital employed in its business and doubles it or trebles it—increases it more than that sometimes—and makes 10 or 15 or 20 per cent on it, and that is an increased return to the shareholders in the corporation.

Mr. SLAGHT: Let me point this out, that the ordinary corporation is not authorized to turn the crank and create something that everybody is sure to take. If they make bond issues of a million dollars they have to engage financial houses, and they have to go to the expense of advertising. They have to go to all sorts of expense to persuade somebody to buy that bond issue at a discount of 90 or 95 cents on the dollar to make it a success. Now, the banks do not have that burden. They create money and lend it. I am shocked that we are asked to regard that as a liability. It is the kind of privilege that every man in this room would take tomorrow if you would give it to him.

Dr. CLARK: It is not only a liability, but it is liability payable on demand. I would not like to have that kind of liability outstanding against me.

An Hon. MEMBER: Neither would I.

Mr. GRAHAM: May I ask Mr. Slaght a question with reference to all these privileges he has spoken about—pen and ink, ledger sheet and the issuing of these notes, which will gradually disappear? Do you know of any corporation or business that you invest any of your money in, over the period of time which the banks have been operating, that have earned less in the net result than the Canadian chartered banks?

Mr. JAKES: We do not know.

Mr. SLAGHT: We do not know what they have made. They have amounts hidden away.

Mr. GRAHAM: In 1943 the minister put on record, and I accept his word, that in a relatively good year they had a net of something over 6 per cent. Does my honourable friend not see that in the net result his argument is denied by the facts?

Mr. JACKMAN: Hear, hear!

Mr. SLAGHT: Not at all. My friend asked me a question. Let him remember this. With original capital of \$145,500,000, a reserve of \$136,750,000, buildings all paid for at \$70,000,000 and \$40,000,000 of these bills that they turned the crank and made, bringing interest in to them at 5 and 6 per cent, is that a business you need to weep over?

Mr. MACDONALD (*Brantford*): Mr. Chairman, I think we have missed the point entirely. The business of banking is dealing in money. They provide the public with the means of exchange, and they have to be paid for doing that business. If I go to the bank and want \$100, there are certain expenses incurred by the bank and I have to pay the bank for the loan of that money. If I go to the grocery store and buy some groceries, I have to pay the grocer a profit because he has handled those groceries and looked after those groceries for me.

Mr. SLAGHT: Do you suggest he could turn the crank and make a bag of sugar for which you pay him? If you go and borrow \$100 from the banker, he turns the crank and hands you a bill.

Mr. MACDONALD (*Brantford*): Oh, no, not whatsoever. A banker does not do that whatsoever. A banker in the first place sets up his capital; then he has to get his premises; then he has to get his clerks. If my friend Mr. Slaght or any other member of this committee thinks that banking can be carried on without expense, it is something new to me. I do not know of any business that can be carried on without expense.

Mr. SLAGHT: Nobody ever suggested that.

Mr. MACDONALD (*Brantford*): That is a suggestion which has come to this committee, that banking is carried on without expense, and therefore we ought to be able to go to the bank and get money and pay nothing for it.

Mr. SLAGHT: I challenge that statement. Who made that statement, that banking can be carried on without expense?

Mr. JAKES: Nobody.

Mr. SLAGHT: Nobody has made such a suggestion.

Mr. McGEER: Now, Mr. Chairman, if I may continue—

Mr. MACDONALD (*Brantford*): The only deduction you can come to from the arguments that have been put forth before this committee is that the services of the bank can be given to the public without cost.

Mr. SLAGHT: It is utter nonsense for you to say that.

Mr. MACDONALD (*Brantford*): Now my friend apparently realizes that—

The CHAIRMAN: Order, please.

Mr. MACDONALD (*Brantford*): Apparently my friend is now realizing that a lot he has said is utter nonsense.

The CHAIRMAN: Order.

Mr. MACDONALD (*Brantford*): I have agreed with that previously, and I still agree.

The CHAIRMAN: All right. Mr. Cleaver has the floor.

Mr. McGEER: I think I gave way to Mr. Slaght, Mr. Chairman. I was cross-examining Dr. Clark. I did not give way to Mr. Cleaver.

Mr. ABBOTT: What section are we on?

Mr. CLEAVER: Mr. Slaght, have I your permission to ask a question of Dr. Clark?

Mr. McGEER: I am in charge.

The CHAIRMAN: I think you had better have Mr. McGeer's leave.

Mr. McGEER: I get shifted off on byways and never get a chance to go on.

Some Hon. MEMBERS: Oh, oh!

Hon. Mr. HANSON: Nobody has taken more time than you, Mr. McGeer.

Mr. McGEER: I want to tell you that I could recommend to the football coaches on the North American continent that they come here and get lessons in interference, and I know of no more astute interferer than the honourable Mr. Hanson.

Mr. CLEAVER: Dr. Clark, there would seem to be some doubt in Mr. Slaght's mind as to whether the issue by the bank, the commercial bank, of their notes, creates a liability. Is it not true that the banks daily or at regular intervals have to honour their currency through the clearing house?

Dr. CLARK: Daily, yes, Mr. Cleaver. I think I have already said that those notes are liabilities or debts payable on demand. The only reason which makes it possible for those notes to circulate as money is the Bank Act, this kind of charter that they have, these controls that are set up in the Bank Act which makes these notes good.

Mr. CLEAVER: Yes.

Dr. CLARK: And which makes the banks carry on their business in such a way that they are sound.

Mr. CLEAVER: I suggest to you that the minute any bank would default for one day in accepting depositors' notes and converting them through the clearing house, that bank would be in bankruptcy.

Dr. CLARK: Yes.

The CHAIRMAN: Mr. McGeer has the floor.

Mr. McGEER: Mr. Fraser asked me for leave to ask a question.

Mr. FRASER (*Northumberland*): With Mr. McGeer's permission, I want to ask Dr. Clark one question.

The CHAIRMAN: Alright.

Mr. FRASER (*Northumberland*): Dr. Clark, after the Bank of Canada was formed, the policy was adopted not only of restricting but annually decreasing or taking away the privilege of the chartered banks of issuing their own notes as mentioned by Mr. McGeer and Mr. Slaght. Is that correct?

Dr. CLARK: That is correct.

Mr. FRASER (*Northumberland*): I have in mind what year it would be, but I should like to have it confirmed. What year will the privilege of note issue on behalf of the chartered banks disappear?

Dr. CLARK: Under the existing Act, Mr. Fraser, the note issue was reduced from 100 per cent in 1934 to 35 per cent of the amount of their unimpaired paid-up capital. By January 1, under the old Act it would be reduced to 25 per cent. Under the new bill it will be completely eliminated by 1950.

Mr. FRASER (*Northumberland*): By what year?

Dr. CLARK: 1950.

Mr. FRASER (*Northumberland*): By 1950?

Dr. CLARK: Yes. After January 1 next they will not have the right to issue or to re-issue any more notes; but there will be some outstanding, and the whole thing will be wiped out in 1950—January 1, 1950.

Mr. FRASER (*Northumberland*): So the chartered banks will have the interim between January 1, 1945 and 1950 to withdraw all their own note issue from circulation?

Dr. CLARK: That is right.

Mr. FRASER (*Northumberland*): And not re-issue.

Dr. CLARK: That is right.

Mr. FRASER (*Northumberland*): Then the *modus operandi* will be that the chartered banks will come to the Bank of Canada for note issue or purchase Bank of Canada notes for circulation?

Dr. CLARK: Yes. That is right.

Mr. FRASER (*Northumberland*): So by the end of this year the privilege that Mr. Slaght is referring to will have disappeared?

Dr. CLARK: Yes.

Mr. FRASER (*Northumberland*): And the residue of the privilege of the past will have to be taken up before January, 1950?

Dr. CLARK: That is right.

Mr. FRASER (*Northumberland*): So that particular privilege of banking which has existed in the past—

Mr. SLAGHT: It was not called a privilege. Dr. Clark says it is a liability.

Mr. FRASER (*Northumberland*): Well, of course I may have a different interpretation of what a liability is from what you have.

Mr. SLAGHT: Suppose you ask him if the government is doing the banks a favour by taking that liability off their hands, and if that liability—the right to issue that money—had to be pressed upon them originally.

Mr. GRAHAM: Mr. Slaght, you are not making a distinction, as you should, between the right to issue notes and the notes after they are issued. One is a privilege and the other is a liability.

The CHAIRMAN: Just a minute, please. Mr. McGeer was very kind to allow Mr. Fraser of Northumberland an interruption. There has been a little interference, Mr. McGeer. Let us not have too much interference. Let the half-back continue.

Mr. FRASER (*Northumberland*): May I express my sincere appreciation to the honourable member for Vancouver-Burrard for the courtesy he has extended to me. There is just one other point I should like to make and that is in connection with the comparison the deputy mentioned as between an industrial or real estate company borrowing money and increasing its capital by bond issue. It was recognized by the government of Canada, in setting up the Bank of Canada, in inaugurating the policy of the withdrawal of the privilege of note issue and the final extinction of that privilege, that Mr. Slaght's premise in practice was correct. But we have corrected that. The government and the banks have acquiesced in the correcting of that, in withdrawing the privilege.

I submit, Mr. Chairman, that the deputy's comparison between an industrial company borrowing money on a bond issue or debenture issue as against the privilege that existed with regard to the banks and which was found to be too great a privilege, is not based on factual evidence because the banks did enjoy that privilege.

Dr. CLARK: I did not say that the right to issue notes was not a privilege.

Mr. FRASER (*Northumberland*): No. I am pointing out, Mr. Chairman, that the difference was that under the privilege of note issue, there was no cost except for the mechanics and the cost of the circulation and upkeep of those notes.

Dr. CLARK: And the 1 per cent tax.

Mr. FRASER (*Northumberland*): And the 1 per cent tax, as against a company borrowing increased capital at 5, 6 or 7 per cent.

Dr. CLARK: Yes.

Mr. FRASER (*Northumberland*): But I submit that that has all been cleared up. Our banking system has been improved and corrected to that extent, and I cannot see where it is a material point at this juncture.

The CHAIRMAN: Mr. McGeer has the floor.

Dr. CLARK: Let me make it a little clearer. I did not say that it was not a privilege to have the right of note issue. What I was attempting to do was to answer Mr. Slaght, that although the banks only had \$145,000,000 of capital, they had the right to use a note issue to increase the amount of capital employed, so to speak, in the business. Now I say that they do that by issuing their notes which, while true enough, circulate as money, are nevertheless I.O.U.'s of the bank. They are definite demand liabilities of the banks. In the case of a private or ordinary corporation, it increases its shareholders' equity capital by borrowing usually on long-term, usually at a higher rate of interest; but it is not subject to anything like the controls that the banking system is subject to.

Mr. FRASER (*Northumberland*): But it is subject to carrying and interest charges?

Dr. CLARK: Oh, quite so.

Mr. NOSEWORTHY: May I ask a question?

Hon. Mr. HANSON: Just a minute. In addition to that, for this so-called privilege the banks have for many years paid a heavy tax to the treasury of Canada?

Dr. CLARK: Oh, quite so.

Hon. Mr. HANSON: Do you know how much that tax was?

Dr. CLARK: The direct tax was 1 per cent of the notes in circulation.

Mr. FRASER (*Peterborough*): Would it not cost another three-quarters of 1 per cent to service those notes?

Dr. CLARK: I would think so, yes.

Mr. SLAGHT: But they lent them for 4, 5 and 6 per cent.

Dr. CLARK: Well, they lent some of them for 4, 5 and 6 per cent. They invest other portions of their funds for three-eighths of 1 per cent, three-quarters of 1 per cent, 1 per cent and so on.

Mr. MACDONALD (*Brantford*): Would it be possible to lend them without cost, without charging any interest?

Mr. FRASER (*Northumberland*): That is water under the bridge now.

The CHAIRMAN: Order, please. Mr. McGeer has the floor.

Mr. McGEER: Mr. Noseworthy has asked for leave to ask a question, and I have agreed.

The CHAIRMAN: All right, Mr. Noseworthy.

Mr. NOSEWORTHY: Dr. Clark, you pointed out the similarity between the banks and private business.

Dr. CLARK: Yes.

Mr. NOSEWORTHY: In the one issuing notes and the other floating debentures.

Dr. CLARK: Yes.

Mr. NOSEWORTHY: Would you also point out the analogy between the two types of institutions regarding their meeting these liabilities? That is, you continually make the statement that the issue of a bank note is a liability which the bank must pay off.

Dr. CLARK: Yes, that is right; must meet.

Mr. NOSEWORTHY: Would you carry that on and show how the bank pays off that liability on its note; and when the note is payable on demand, how it is paid, as compared with an industrial firm which pays off its debentures?

Dr. CLARK: In the case of ordinary business borrowing usually takes the form of a long-term note, debenture or bond, running ten, fifteen or twenty years, the company would pay it all off at the end of the period or gradually during the period, out of its earnings.

Mr. NOSEWORTHY: Just what form of payment would that take?

Dr. CLARK: Oh, usually a cheque on its bank balance.

Mr. FRASER (*Northumberland*): They pay that out of earnings.

Dr. CLARK: In the case of the bank, the note is a demand liability. It may have to be met to-morrow, through the clearing house, by a cheque on the Bank of Canada, or in Bank of Canada notes; or it may have to be met to-morrow by you going in—

Hon. Mr. HANSON: And getting another note.

Dr. CLARK: —and demanding Bank of Canada cash in exchange for it.

Hon. Mr. HANSON: Or getting another of their notes in exchange.

Dr. CLARK: No. If you take in the bank's own notes and ask for Bank of Canada notes, you could get them.

Mr. SLAGHT: Is this not true, Dr. Clark: there are \$800,000,000 of Bank of Canada notes out now, roughly?

Dr. CLARK: Right.

Mr. SLAGHT: And there are \$40,000,000 of private bank notes out; and on those the banks are receiving hundreds of thousands of dollars of Bank of Canada ten-dollar bills through their different wickets every day. If they have to pay somebody with a Bank of Canada ten-dollar bill for a Bank of Commerce ten-dollar bill, they get it for nothing right through their wicket in great excess amount.

Dr. CLARK: No. They do not get it for nothing.

Hon. Mr. HANSON: No.

Mr. SLAGHT: They get it for nothing in the sense that they take in a ten-dollar bill of the Bank of Canada and take it over and can pay out a ten-dollar bill of their own, if they have to pay anybody.

Dr. CLARK: When they take in the ten-dollar Bank of Canada bill from the particular depositor, they accept the liability to pay that depositor on demand.

Mr. SLAGHT: Certainly.

Mr. JAQUES: Pay what?

Dr. CLARK: It is not getting it for nothing. It is getting it for 100 cents on the dollar.

The CHAIRMAN: Mr. Jackman has the floor.

Mr. JACKMAN: So that the committee may understand how long this circulation right will last in practice under the present amendment, I should like to ask how much you would say there would be in substantial amount of bank notes outstanding after January 1, 1945? As I understand it, they cannot be re-issued by the bank. Suppose it were the Bank of Nova Scotia and its own notes. It cannot re-issue those bills, and I should judge from the mechanics of it, that within a very short period of time there would be practically no chartered bank bills outstanding except as a rarity. Long before 1950, let us say 75 per cent or 90 per cent of them would disappear from circulation. Is that the way it will operate under this section?

Dr. CLARK: I would think in a year or two it would be down to probably \$5,000,000 or \$10,000,000.

Mr. SLAGHT: Dr. Clark, could you throw some light on this question? Perhaps it is not fair to ask it, and if you do not want to answer it, you need not. Could you say what motivated parliament to relieve the chartered banks of this liability on these notes of theirs? Why did they make it so much easier for the chartered banks to be relieved of the liability which the banks had undertaken years and years ago? Could you throw any light on the motivation?

Dr. CLARK: Well, I do not know what motivated parliament. I would not be able to answer that question. But I think the recommendation from the Minister of Finance was based on the belief that paper money should be issued not by a banking institution, but by a state agency.

Mr. SLAGHT: I thank you for that; because I believe you have hit the true reason. I suggest this: is there any further reason why that other than paper money, namely cheque money, book entry money and newly created money, should not also be created by government instead of by private banks? Where do you differentiate between paper money and book credit money?

Mr. ABBOTT: Are you suggesting state ownership of the bank?

Mr. SLAGHT: By which 90 per cent of the business of the country is done.

Mr. ABBOTT: You are joining Mr. Noseworthy.

Mr. GRAHAM: To keep the record clear, I am going to ask Dr. Clark if I am not right in this. Parliament has never been asked to relieve the banks of any liability with regard to the issue of currency. Is that not true?

Mr. McGEER: Would you let me have that question again? I did not hear it.

Dr. CLARK: It has "taken away" the right.

Mr. GRAHAM: They have taken away the right to issue but they have never attempted to take over the liability which you have been talking about this morning?

Dr. CLARK: No.

Mr. GRAHAM: And the banks must still redeem every note that they issued?

Dr. CLARK: That is quite right.

Mr. MACDONALD (*Brantford*): Mr. Chairman—

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the section carry?

Mr. GRAHAM: If I may interject—

Mr. McGEER: Well, Mr. Chairman, I thought I had the floor.

Mr. GRAHAM: I was going to ask that Mr. Abbott, representing the Minister of Finance, and Dr. Clark consider if this whole section should not be deleted. I believe that the need of it has largely passed. The balance of the

note circulation by the banks is fast disappearing. Then we must remember that we have now amended the Bank Act to bring the par value of bank shares down from \$100 to \$10 each. A section of this Act is only important if it becomes operative, and we must look ahead to the time when this section that we approve of might become operative. If this committee recommends and parliament agrees to reducing the par value from \$100 to \$10 for the purpose of inducing a greater number of people to buy bank shares, then in my opinion we should not leave in our Act this double liability clause or a liability clause to any greater extent than is the case with any other shareholder in any other business institution. My points are that the danger of default on note issue by the bank is either gone or is disappearing; secondly, that the Bank of Canada is prepared to protect the banks in the event of any panic causing them undue strain; and thirdly, that the reduction of the par value of the shares for purposes of widening the base of shareholdership is one we should have in mind.

Mr. McGEER: I hope that my generosity on the 12th of July will not be overlooked; but I would like to come back to the point I was raising, and the point I have in mind, doctor, is that the double liability was a justifiable thing as against the shareholder in a bank because the shareholder had the right to his privilege of printing money to double the volume of his paid-up capital, or to increase his working capital and double the value of his paid-up capital by printing money.

Dr. CLARK: As I understand the history of the matter, Mr. McGeer, in the early days we had all sorts of money circulating in Canada; we had a number of small banking concerns running for a time and passing out of the picture, and their notes would get into the hands of small people, small unsophisticated people, and then the bank would fail, and there was a loss in the hands of the note holder. Parliament tried in several different ways to make sure that the small income person who took these bank notes as money, and kept his liquid wealth in them from time to time, would be protected against loss, and one of the provisions to make sure of the protection of the note holder was the double liability against the shareholder of the bank. There were several other important restrictions—this bank circulation redemption fund provision that we passed this morning was also designed to protect the note holder against loss in the case of a failed bank.

Mr. McGEER: One justifiable protection was found in the fact that having the use of double capital, as it were, you should assume double liability.

Dr. CLARK: I have never seen that argument stated in any of the history or discussions of Canadian banking, in parliamentary debates or Banking and Commerce committee debates which I have read.

Mr. McGEER: Well, the whole principle underlying our corporation law is an inducement to investment and development, because you can go into a company and limit your liability to the amount of capital you pay in.

Dr. CLARK: That is correct.

Mr. McGEER: And that is all the capital you can use other than that which you go out and borrow.

Dr. CLARK: That is right.

Mr. McGEER: Now, the banks were given the privilege of a double volume of capital—the amount paid in and the other amount printed subject to certain restrictions. You say that was a liability?

Dr. CLARK: I say that the notes issued by a bank are a liability of the bank.

Mr. McGEER: I disagree with you on that, and I will tell you why: the notes issued by a bank are only a contingent liability, contingent upon the bank

using them to make an investment; they would then come into circulation and be a liability, would they not?

Dr. CLARK: They might come into circulation that way, and in several other ways, but once they got into circulation—

Mr. McGEER: But they cannot come into circulation except in one of several ways, and among those is the bank making an investment. The bank will not make that investment unless it thinks the investment is good?

Dr. CLARK: I presume so.

Mr. McGEER: And if the investment is good—because it is interest bearing and it is purchased with non-interest bearing money—the bank can convert that investment into whatever money is required to redeem that note that is used?

Dr. CLARK: No, I think that is not correct, because some of the investments made by banks—perfectly sound and good—could not be converted into cash tomorrow to meet that note liability.

Mr. McGEER: No, but if the bank makes a bad investment?

Dr. CLARK: I am not talking about a bad investment; I am talking of a good investment, a sound commercial loan.

Mr. McGEER: If the bank makes such investments as would reduce its liquidity to the point where it could not meet its current demand that would be a bad bank investment, would it not?

Dr. CLARK: I would say, unless they keep adequate cash reserves and adequate liquid reserves behind their cash reserves, yes, they are making a mistake.

Mr. McGEER: So that liability that would arise in that case would not be the result of issuing their own money but the result of making a bad investment in terms of sound banking?

Dr. CLARK: But I think that the liability exists on the face of the note as soon as that note passes over the counter; it is an undertaking that they make to pay the holder on demand.

Mr. McGEER: Let me simplify this. The bank has the power to lend that money. It can with that money buy a national security bearing interest?

Dr. CLARK: Right.

Mr. McGEER: Can you conceive of any way by which a bank, printing its own money and exchanging it for dominion government bonds, could incur a liability through the use of that money?

Mr. JACKMAN: The bonds might go down.

Dr. CLARK: It incurs it automatically as soon as it issues the money.

Mr. McGEER: If that liability arises it will be because the investment in the dominion government bond was no good.

Dr. CLARK: No, I cannot follow that. I would say that the liability exists the moment that note is handed out by the bank to some person, some third person, because it is on its face a legal obligation to pay on demand no matter what it is put into.

Mr. JAKES: Pay what on demand? I would like to put one question.

Mr. McGEER: Well, just one.

Mr. JAKES: If I take a bank note or a bill to a banker, you say he will pay it on demand—pay what on demand? Another bill like it?

Dr. CLARK: No, you can get Bank of Canada cash.

Mr. JAKES: Could I do that before the Bank of Canada was formed?

Dr. CLARK: You could get dominion notes or gold.

Mr. ABBOTT: Bank notes have never been legal tender in this country.

Mr. McGEER: What I want to come to is that there is no other corporation excepting a chartered bank that can print its money and purchase government bonds?

Dr. CLARK: No, I think that is true.

Mr. McGEER: All right. Now, can you conceive of a bank in Canada having printed its own money and purchasing a dominion government bond, being unable to take that bond to the Department of Finance, pre-Bank of Canada days or today, and being unable to secure from the Department of Finance or the Bank of Canada the cash required to make that investment of the bank in that bond good?

Dr. CLARK: Now, let us keep pre-Bank of Canada days separate from post-Bank of Canada days. The Department of Finance did not buy back bonds that it had issued, that the government had sold in the past; it never stood ready to buy back government bonds. It sold its own obligations for a ten or fifteen year period, and no holder of those bonds could come in at any time to the Department of Finance and say, "please change this into cash"?

Mr. NOSEWORTHY: Could they use them as collateral to the Bank of Canada?

Dr. CLARK: We are talking about pre-Bank of Canada days.

Mr. McGEER: What you said is that there was no obligation on the part of the Department of Finance to either lend Dominion of Canada notes or to purchase the Dominion of Canada bonds held by banks to avoid a liquidation or a winding up of the bank with loss to its depositors or shareholders or note holders?

Dr. CLARK: I was saying that when the Dominion of Canada in the past sold a fifteen year bond there was no obligation on the part of the Department of Finance or the government to buy back or to lend on that bond until the fifteen year maturity came around. I, perhaps, should have made this clear—and this is maybe what you have in mind—that while the Finance Act was in operation there was a possibility for the banks to deposit securities, certain classes of securities, with the Department of Finance and get cash.

Mr. McGEER: And in Bank of Canada days they came along and extended the powers of the Bank of Canada to include the power to accept securities from the chartered banks on a very much wider scale than ever before?

Dr. CLARK: To buy securities.

Mr. McGEER: Or to lend to them?

Dr. CLARK: Yes.

Mr. McGEER: They have all kinds of powers?

Dr. CLARK: Yes.

Mr. McGEER: You can lend cash to them or issue them over into circulation as you did on the easy money policy, or you can buy your securities outright; you have the widest latitude for coming to the rescue of the banks under the Bank of Canada—even the power to lend on the security of a note. What I do want to point out to you is this: even in the pre-Bank of Canada days the Department of Finance did come to the rescue of banks in trouble in Canada, banks who had expanded their loans and investments?

Dr. CLARK: Not banks in trouble; I think the Finance Act operated.

Mr. McGEER: You remember the taking over of the Mackenzie and Mann interests and the issue of some \$26,000,000 of Dominion of Canada cash, and did we not come to the rescue of the Bank of Commerce?

The CHAIRMAN: Not at all.

Dr. CLARK: No, Mr. McGeer; it was to raise money for the government.

Hon. Mr. HANSON: If you would read the report of Sir John Aird's evidence in 1923 you will see the answer.

Mr. McGEER: I have read it. Now, anybody who would suggest that a bank with a right to issue money and exchange that money for interest bearing bonds is incurring a liability in my opinion is converting the privileges of the monopoly into something which is not a liability at all.

Dr. CLARK: Well, on that basis the whole Bank Act must be wrong. In these returns that are provided by law the banks must show their notes in circulation as liabilities of the banks, and I cannot see that there is anything else—

Mr. ABBOTT: This is an interesting discussion, but it seems to me to be pretty academic in view of the fact that the note issue has practically disappeared now and will disappear in four or five years.

Mr. McGEER: We are dealing with the liability of the shareholders.

Mr. ABBOTT: We are dealing with the section which relates to the double liabilities of shareholders which now is reduced to the extent that the note issue of the bank is reduced and which will disappear on the last day of January, 1950, when the note issue so far as the banks are concerned, is extinguished. So we have taken a great deal of time in discussing the theory of a bank's right to issue notes. It is interesting, but in this hot weather it seems to me we might go on with something which is of more practical significance.

Mr. McGEER: I know. You may get some light out of this discussion too.

Mr. ABBOTT: I have no doubt I shall.

Mr. McGEER: Don't come to the conclusion that all the information with regard to this matter is locked up and not disclosed.

Mr. ABBOTT: Oh, no, no.

Mr. McGEER: Now, Dr. Clark, I want to come to the other point. A contingent liability is incurred by the bank in using that money when it makes an investment, a contingent liability is also made when it makes a loan?

Dr. CLARK: A direct liability.

Mr. McGEER: All right, you say that; but it can only become a liability provided the investment loses the liquidity which the bank requires to meet its demands?

Dr. CLARK: No, it is a liability the moment it passes over the bank's counter.

Mr. McGEER: Then, it is a liability incurred, if it takes on a deposit?

Dr. CLARK: Surely.

Mr. McGEER: So that any liability that is incurred in connection with the issue of bank note currency comes as a result of the circulation by the bank of that money as an investment, or as a loan, or incurs a liability to a depositor who goes and deposits the amount which he has on deposit in the bank. Now, you say that is a liability?

Dr. CLARK: Absolutely.

Mr. McGEER: That is a liability? The government has relieved the shareholders of a liability.

Dr. CLARK: I cannot understand that, Mr. McGeer.

Mr. McGEER: By reducing their power to issue money, the government or parliament by enacting this legislation, according to your interpretation, has reduced the liability of the shareholders?

Dr. CLARK: It has taken away the right to issue notes, bank notes, which served as money; it has taken that away and to the extent that the notes of the

bank in circulation are thereby reduced—the liability of that bank is thereby reduced. Remember, I pointed out a while ago, that while I said that these notes in circulation are direct liabilities of the bank as soon as they pass over the counter of the bank into public hands, I also said it was a privilege that the banks possess to issue their notes, their obligations to serve as part of the money supply of the country. I am not denying that that is a privilege. I think they made some money on that. I think the note issue was the basis of a reasonable profit to the banks.

Mr. McGEER: And a reasonable service to the country providing a medium of exchange.

Dr. CLARK: Quite.

Mr. McGEER: I agree on that.

Dr. CLARK: That does not prove that the notes are not a liability.

Mr. McGEER: That makes it all-inclusive. So that parliament by enacting the Bank of Canada legislation and reducing the power as they did in 1934 of the chartered banks to issue their own money, and now by this amendment limiting them to the issue of the circulation and closing it out completely at 1950—

The CHAIRMAN: Is it the wish of the committee to sit this afternoon? Very well, we will meet tomorrow morning at 11 o'clock.

The committee adjourned to meet at 11 o'clock, July 13.

JULY 13, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

Mr. CLEAVER: As the committee now has a quorum I should like to move that the quorum of this committee be reduced to ten. We have frequently had to wait ten, fifteen, and one day last week, twenty minutes for a quorum.

Mr. LAFONTAINE: I will second that motion.

The CHAIRMAN: All those in favour please raise their hands? Opposed? I declare the motion carried. Of course, you understand that has to be reported to the house.

Mr. CLEAVER: Yes, I do.

The CHAIRMAN: Is section 129 carried?

Mr. GRAHAM: Mr. Chairman, before we carry that section what do Mr. Abbott and Mr. Clark think of the advisability of deleting that section?

Mr. ABBOTT: Just so that I can understand your suggestion, Mr. Graham, was it your proposal that the remaining double liability with respect to the shareholders should be eliminated entirely?

Mr. GRAHAM: Yes.

Mr. ABBOTT: I thought that is what it was. I thought of that yesterday. It seems to me, as Mr. Hanson has indicated, it is going to disappear pretty rapidly. It is now down on a proportionate basis to 35 per cent and will be 25 per cent from the 1st of January and by the 1st of January, 1950, will disappear entirely. My only concern is whether the general public would entirely understand the elimination now of the double liability as long as there is still some of the note issue outstanding, and it seems to me on balance perhaps it would be as well to leave the section in the Act realizing as we do that the liability is a diminishing one and will disappear inside of five or six years.

Mr. GRAHAM: I withdraw my objection.

Hon. Mr. HANSON: I agree with what Mr. Abbott has said.

Mr. NOSEWORTHY: Mr. Chairman, there are one or two questions I would like to clear up regarding double liability. I notice here that the purport of section 129 is to reduce the responsibility of shareholders regarding double liability in accordance with the withdrawal of their right to issue notes which would seem to indicate that the purpose of the double liability clause in the Bank Act originally was to offset or to provide security for the customers of the bank against the issue of bank notes. I noticed that when we were dealing with the banks which had failed in the past the reason for the failure was not given as the excessive issue of bank notes. There were a number of other reasons given for bank failures. I noticed also that in the event of failure the double liability clause was brought into effect to protect the bank's customers not only against the issue of notes but against all these other causes which have brought about failure.

Hon. Mr. HANSON: It is primarily against the issue of notes.

Mr. NOSEWORTHY: That is a point I want cleared up. Just how important is this double liability as a means of protection not only against the issue of notes but against other losses that banks run into? The second point I should like to know is to what extent has the double liability feature of the Bank Act functioned to protect customers of the banks in the case of those banks which have failed?

Mr. TOMPKINS: I can give you that.

Mr. NOSEWORTHY: I notice in one case, for instance, the shareholders refused to pay the double liability which was given, I think, in the case of the Sovereign Bank. I think we should have that matter cleared up. Just what is the importance of this double liability feature in relation to bank losses and bank failures, and to what extent have the banks been able to call the double liability feature into effect where banks have failed in the past?

Mr. TOMPKINS: Mr. Chairman, if the members of the committee will refer to exhibit No. 5, which is a statement of the banks which have gone into liquidation since Confederation, you will find there a summary of the amount of double liability collected in a number of instances, and the footnote with reference to the Sovereign Bank situation will indicate, I think quite clearly, what happened in that particular case. The double liability has been a source of protection for the creditors of the banks in general, although the general theory is the double liability feature with respect to bank shares was more or less contemporaneous with the note issue privileges of the banks.

Hon. Mr. HANSON: What are the creditors of the banks in order of priority? The Crown is first?

Mr. TOMPKINS: First is note holders; secondly, the Crown in the right of the dominion; third, the Crown in the right of the provinces—

Hon. Mr. HANSON: By statute.

Mr. TOMPKINS: Yes, and fourth, all others.

Hon. Mr. HANSON: Then note holders are in a preferred position, and therefore you argue this double liability is for their benefit.

Mr. TOMPKINS: I think largely because they are involuntary creditors rather than voluntary creditors.

Hon. Mr. HANSON: I guess you are right.

The CHAIRMAN: Shall the section carry?

Mr. McGEER: There are some questions I wanted to ask Dr. Clark before this question of double liability was finally disposed of. I think yesterday, Dr. Clark, we got to the point where the cancellation of the right to issue chartered bank notes, disappearing as it does, relieves the banks of all liability

and as you put it you do not accept my proposal of contingent liability but direct liability?

Dr. CLARK: Yes.

Mr. McGEER: I think you will also agree it was a privilege and a liability?

Dr. CLARK: I think I said, Mr. McGeer, that the right to issue notes was a privilege, that once the notes were issued and got into the hands of other people they became a liability of the bank and an asset of the persons receiving them.

Mr. McGEER: And because this double liability was a provision to protect note holders, as the right to issue notes decreases so should the liability of the shareholders?

Dr. CLARK: I said that seemed to be the thinking of parliament.

Mr. McGEER: That is the clear attitude expressed in this legislation and the amendment proposed to it. That is section 129.

Mr. MACDONALD (*Brantford*): There is nothing to prevent any individual or any corporation from issuing notes. I can issue my own notes.

Mr. JACKMAN: You cannot get them accepted.

Mr. MACDONALD (*Brantford*): The only difference is I might have more difficulty in getting mine accepted. I do not see where there is any special privilege given to a bank in that respect whatsoever. If the people are prepared to take my notes then it is up to them.

Hon. Mr. HANSON: Let us not argue about that.

The CHAIRMAN: Let us not have interference.

Mr. McGEER: I suggest to you that the Bank of Canada since its inception has supplied the chartered banks of Canada with their currency cash requirements to the extent, at least, that they have been increased by the fall in the amount of their own currency that they could issue?

Dr. CLARK: Supplied in the sense of sold to the banks, sold the extra Bank of Canada cash that the banks needed since the Bank of Canada started operations.

Mr. McGEER: Whether it was sold or in any other way the Bank of Canada did make that amount of currency which was required to take the place of the issues that had been denied the chartered banks?

Hon. Mr. HANSON: Would it not be more correct to say that the chartered banks supplied currency by the purchase of Bank of Canada notes which they handed out to their customers?

Mr. McGEER: I say whether it was in that way or in any other way—we may disagree on that—the supply came from the Bank of Canada.

Dr. CLARK: Oh, yes. By law the banks are required to keep their cash reserves in the form of Bank of Canada cash.

Mr. McGEER: And the Bank of Canada supplied that cash?

Dr. CLARK: Yes, surely.

Mr. McGEER: Yes.

Dr. CLARK: Supplied it in the sense of “sold” it.

Mr. McGEER: The chartered banks had to pay for the cost of printing, whatever it was, and servicing their chartered bank currency notes. That is one item of expense, was it not?

Dr. CLARK: Yes, in regard to their notes.

Mr. McGEER: Yes, in regard to their notes.

Mr. MACDONALD (*Brantford*): Will you explain what the servicing consists

Mr. McGEER: When bills comes in defaced, or torn, or new issues are made.

Mr. TOMPKINS: And express charges, insurance and things of that sort.

Mr. McGEER: Absolutely. I am now dealing not with the distribution but with the issue. In the issue there was the cost of printing and servicing?

Dr. CLARK: Yes.

Mr. McGEER: There was the charge of 1 per cent tax on the circulation, was there not?

Dr. CLARK: That is right.

Mr. McGEER: I suggest that the banks have been released from both those charges?

Dr. CLARK: When their note issue disappears, they will obviously be released.

Mr. McGEER: And in so far as the Bank of Canada is now supplying the currency to the chartered banks, the Bank of Canada pays for the printing of the bills and the servicing of the bills. That is correct, is it not?

Dr. CLARK: For its own bills, yes.

Mr. McGEER: For its own bills?

Dr. CLARK: Yes.

Mr. McGEER: And in addition to that, the government has lost the revenue of the 1 per cent on the chartered bank note circulation.

Dr. CLARK: Yes. But it has gained the revenue from the use of Bank of Canada notes.

Mr. McGEER: Yes. You said a moment ago that the chartered banks sold their notes?

Dr. CLARK: No, I said—

Mr. McGEER: Or that the Bank of Canada sold its notes to the chartered banks?

Dr. CLARK: Yes.

Mr. McGEER: Is that the only way that the chartered banks can come into possession of Bank of Canada bills?

Dr. CLARK: In one way or another that is the only way. What I mean is this. The chartered banks can only get Bank of Canada notes by paying, so to speak, 100 cents on the dollar or by assuming a liability of 100 cents on the dollar to a depositor who has made a deposit of Bank of Canada notes in the chartered banks.

Mr. McGEER: Now, Dr. Clark, I want you to get on the record flat on that. You say that when the Bank of Canada purchases a bond from the government, and the government issues a cheque against that credit which it then has in the Bank of Canada—or let me get the steps correctly. The government, in selling a bond to the Bank of Canada, exchanges the bond for credit in the Bank of Canada. Is that not correct?

Dr. CLARK: Yes.

Mr. McGEER: And when the government wants to use that money to pay for government services, the government issues a cheque on the Bank of Canada. Is that right?

Dr. CLARK: Yes.

Mr. McGEER: And that cheque is then taken by the receiver of it to one of our chartered banks?

Dr. CLARK: That is right.

Mr. McGEER: And the chartered bank then presents the cheque.

Dr. CLARK: That is right.

Mr. McGEER: To the Bank of Canada?

Dr. CLARK: That is right.

Mr. McGEER: And receives from the Bank of Canada—

Dr. CLARK: A deposit in the Bank of Canada.

Mr. McGEER: Well, the cash—

Mr. MACDONALD (*Brantford*): Get the answer.

Dr. CLARK: Which is chiefly a deposit in the Bank of Canada.

Mr. McGEER: And if it wants cash, it can get it on demand?

Dr. CLARK: Yes. If it wants notes instead of deposits, it can take the notes; but it is the same thing.

Mr. McGEER: But if it wants notes, then it has either the right to hold them there as a deposit or to take the notes?

Dr. CLARK: That is right.

Mr. McGEER: And Bank of Canada cash issued in that way then becomes the property of the chartered banks?

Dr. CLARK: That is right.

Mr. McGEER: That is right.

Dr. CLARK: But the chartered bank then has a liability to the purchaser who deposited with the bank.

Mr. McGEER: We agree on that. But the chartered bank, having come into possession of cash in that way, then has a liability to one depositor, but has the power to create, under banking practice, nine times the amount of that liability to nine other depositors?

Dr. CLARK: Yes, by accepting a liability to those other nine depositors, just in the same way.

Mr. McGEER: Accepting those liabilities to other depositors; and that is what you want this committee to believe is a purchase by a chartered bank of Bank of Canada cash?

Dr. CLARK: Well, it certainly is. If I buy a house and give my note to the seller of the house, and he is willing to take it, I have purchased the house by giving my note for it, and I am accepting a liability for 100 cents on the dollar there, in the same way the bank is by accepting the deposit liability to the depositor for 100 cents on the dollar; either in that way or in direct purchase by the Bank of Canada of government or other securities held by the chartered banks you have what in effect is a purchase by the bank of Bank of Canada cash.

Mr. McGEER: Let me put this to you. A contractor with the government receives a cheque from the government on the Bank of Canada. He takes that cheque and deposits it in the Bank of Montreal.

Dr. CLARK: Yes.

Mr. McGEER: That depositor then has a deposit?

Dr. CLARK: That is right.

Mr. McGEER: In the Bank of Montreal?

Dr. CLARK: That is right; and he can get cash to-day or to-morrow.

Mr. McGEER: Just a minute. The Bank of Montreal can then go to the Bank of Canada and take the amount of money which the cheque that was deposited represented, and put it in its till or its vaults?

Dr. CLARK: That is right.

Mr. McGEER: And all that has happened is that the Bank of Canada has put in the possession of the Bank of Montreal the exact amount that the government paid the contractor and that the contractor deposited with the bank?

Dr. CLARK: You say that is all the Bank of Montreal has done. No, it is not. The Bank of Montreal has accepted a demand liability to that contractor depositor, and it has accepted a liability to pay cash to-morrow for it or to-day.

Mr. MACDONALD (*Brantford*): To pay wages or anything else.

Mr. McGEER: Let me take the transaction on another basis. The contractor, instead of depositing the cheque, goes to the Bank of Canada and presents the cheque.

Hon. Mr. HANSON: He cannot.

Dr. CLARK: He cannot do that.

Mr. McGEER: He cannot get cash?

Dr. CLARK: No. He could not do that.

Mr. McGEER: Why?

Dr. CLARK: The Bank of Canada does not deal with individuals. It is a central bank for bankers.

Hon. Mr. HANSON: He knows that.

Mr. McGEER: Do you mean to tell me if I have a cheque written by the government on the Bank of Canada, I cannot go and present it to the Bank of Canada and get cash?

Mr. CLEAVER: Mr. Chairman, I rise to a point of order. May I ask Mr. McGeer what point he is trying to establish in regard to the matter dealt with by section 129?

Mr. McGEER: I shall be very glad to answer that question, because I think if the members of the committee appreciated just what is going on to-day, their attitude might be a little different. The point I am making is that the liability of the shareholders has been substantially reduced. They have lost the liability of printing their own money. They have lost the liability of servicing their own money. They have been relieved of the payment of a 1 per cent tax on their circulation, and they are now asking that the double liability of shareholders, which was just as much a security to depositors as it was to note holders, be removed. They are being supplied with cash free by the Bank of Canada.

Hon. Mr. HANSON: Not at all.

An Hon. MEMBER: They pay for it.

Mr. McGEER: They do not pay for it.

Hon. Mr. HANSON: You are all wrong.

Mr. GRAHAM: Mr. McGeer, this committee—you being the exception—apparently was quite prepared to maintain this section intact as it stands now. Why spend time arguing the opposite?

Mr. McGEER: I then say that this question of security for shareholders and depositors should not be reduced but should be substantially increased, because the next point is this. Not only are the chartered banks now being supplied with cash free as far as currency is concerned—

Hon. Mr. HANSON: That is a false premise.

Mr. McGEER: That is a liability now assumed by the Bank of Canada, but the banks have the power to issue what is coming to be more and more a positive substitute for currency in the form of bank deposits. If there were any justification at all at any time for a security as against the issue of currency notes, then there must be an equal need and justification for a security

against the issue of bank deposits for bank deposit holders. We are moving, in my humble opinion, into a very, very dangerous position as far as our whole monetary structure is concerned. It is all right to say that you are going to go ahead, and that you can assume this and that; but I wanted to bring these things to the attention of the committee. There is just one point that I want to bring out definitely on the issue. You are conversant with the Bank of Canada report issued covering the operations of the bank last year, Dr. Clark?

Mr. MACDONALD (*Brantford*): Mr. Chairman, if I may interrupt, may I say that I understood that this morning we were to try to dispose of the non-contentious sections.

Mr. McGEER: This is a contentious section.

Mr. MACDONALD (*Brantford*): Yes, this is a contentious section.

Mr. McGEER: We had it under consideration yesterday when we adjourned.

Mr. MACDONALD (*Brantford*): Definitely it is a contentious section. But there have been waiting in the committee for the last three days representatives of the Retail Credit Federation; and I think if we are going to deal with contentious sections and not get on with the passing of the non-contentious ones, we should hear those representatives as soon as possible in order that they can get away.

The CHAIRMAN: May I just try to find out from the members if there are any non-contentious sections left.

Mr. McGEER: I do not think there are.

The CHAIRMAN: Let us look at section 140. Is section 140 contentious?

Mr. McGEER: The interference goes on.

An Hon. MEMBER: Carried.

Mr. McGEER: Oh, no. This is certainly contentious.

Hon. Mr. HANSON: That could be carried, I should think.

Mr. McGEER: No. That is contentious. I am disputing that.

The CHAIRMAN: Well, section 146.

Mr. McGEER: That is again tied up with section 117.

The CHAIRMAN: Shall we carry section 146?

Mr. McGEER: No.

Mr. FRASER (*Peterborough West*): Did you carry section 140?

The CHAIRMAN: No. We said it is contentious. Section 146.

Hon. Mr. HANSON: Carried.

Mr. McGEER: No. That is tied up with section 117.

Dr. CLARK: It is the penalty section.

Mr. JACKMAN: No, it is not. It is tied up with section 53.

Mr. McGEER: Yes.

The CHAIRMAN: We have already passed 53, have we not?

An Hon. MEMBER: No.

The CHAIRMAN: No, we have not.

Mr. McGEER: I made a mistake in the number.

The CHAIRMAN: Shall we carry section 146?

Mr. McGEER: No.

The CHAIRMAN: Then section 149. Section 146 stands. What about section 149?

Hon. Mr. HANSON: Why could that not be carried?

Mr. McGEER: That is tied up with section 88. That stands.

The CHAIRMAN: Section 150.

Mr. NOSEWORTHY: That is tied up with section 88 also.

The CHAIRMAN: And section 165 must stand. They all stand. Then I presume, as we have no non-contentious sections, we might as well go back to section 129 and finish the argument.

Hon. Mr. HANSON: Let us get some progress.

The CHAIRMAN: I might just say, gentlemen, before we go back, that I think under present conditions we will have to have more frequent meetings.

Some Hon. MEMBERS: Hear, hear!

The CHAIRMAN: I would suggest that we begin to meet at 4 o'clock in the afternoons, and if necessary meet at night as well.

Mr. McNEVIN: Hear, hear!

The CHAIRMAN: We must get on with the work that has been assigned to us.

Mr. McNEVIN: And keep strictly to the point.

Mr. GRAHAM: May I make a further suggestion, Mr. Chairman?

The CHAIRMAN: It is that, in the light of our past record and the need for making great progress, we ask you as chairman to apply fairly strictly the rules of debate, and that you exercise your chairman's authority to rule out of order discussions that are repetitious or are not relevant to the issue or the exact matter under discussion.

The CHAIRMAN: Then, Mr. Graham, will you assist me in defining the chairman's authority?

Mr. GRAHAM: Yes.

The CHAIRMAN: I have, as I conceive it, no authority except to appeal to the members not to repeat; and I have, as you know, Mr. Chairman, appealed and appealed, but without a great deal of success.

Mr. GRAHAM: Yes.

Hon. Mr. HANSON: May I suggest, Mr. Chairman, that you are too modest, and that you have authority to hold a debate to relevancy and avoid repetition. You can always appeal for support to the committee itself.

Mr. McNEVIN: Hear, hear!

Mr. HANSON: That is the procedure that I think we will have to put into effect if we are to make any progress. Today we have had repetition, repetition and repetition; and I am personally getting very sick of it and I am sure that the public are.

Mr. McGEER: I am perfectly willing to take my responsibility.

The CHAIRMAN: Just a minute, Mr. McGeer, please. As a former chairman of this committee, Mr. Hanson, I of course pay a great deal of regard to your observation. When you say that the public is getting sick of it, I wish you could have read some of the letters that I have received in the past few days as to, shall I say, obstructionist tactics—and that is the word that has been used—that have gone on in this committee. Following your suggestion, I will call the attention of the members to their repetitions; and after I have done that, the rest of it lies in the hands of the committee. That is all I can do.

Mr. McGEER: Now, Dr. Clark, after that proposition, may we get back to some of the facts that, in my humble opinion I believe this committee should have before they—

The CHAIRMAN: Bearing on one section only, section 129.

Mr. McGEER: Bearing on the question of security.

The CHAIRMAN: On section 129.

Mr. McGEER: Provided in the double liability clause of section 129.

The CHAIRMAN: Yes.

Mr. McGEER: And I do not want to be interfered with in that way. I mean to say there is a limit to what you can do. You cannot do that with me.

The CHAIRMAN: Mr. McGeer, I am not interfering with you. I have been reprimanded by the committee for allowing too much latitude—

Mr. McGEER: When I am starting my examination.

The CHAIRMAN: Please do not interrupt me. I do not interrupt you in your sentences.

Mr. McGEER: Well—

The CHAIRMAN: Please listen; I do not interfere, but I ask you not to repeat. If you go over the record you will find that many many times you have repeated and repeated and repeated statements that did not bear on the section under discussion.

Mr. McGEER: You know one time Lydia Pankhurst was asked why she said a thing a hundred times—

The CHAIRMAN: I do not know that Lydia Pankhurst has anything to do with this.

Mr. McGEER: Would you mind letting me say a word or two?

The CHAIRMAN: No. Will you please leave Lydia Pankhurst out of this? Yesterday you referred to this as a game of football. I think that is very unbecoming.

Mr. McGEER: I thought the interference tactics were so excellent it ought to be brought to the attention—

The CHAIRMAN: This is not a game; this is serious business.

Mr. McGEER: I agree with you.

The CHAIRMAN: Then go on and be serious.

Mr. McGEER: Mr. Chairman, through you may I suggest to Dr. Clark that we refer to the report of the Bank of Canada at page 3:—

The bank's holdings of dominion and provincial government securities were \$1,260,375,252 on December 31 last, having risen by \$243,974,530 during 1943. Our security purchases during the year were undertaken in order to offset the effect upon the chartered banks' cash reserves of the increase in active note circulation, and also to bring about some increase in those cash reserves, for reasons which I shall refer to in a later section of this report.

That was a policy undertaken by the Bank of Canada?

Dr. CLARK: That is right.

Mr. McGEER: I assume it was a policy agreed upon between the Department of Finance and the Bank of Canada?

Dr. CLARK: I am a member of the board, Mr. McGeer.

Mr. McGEER: As the representative of the Department of Finance?

Dr. CLARK: Yes.

Mr. McGEER: So that the policy of increasing the chartered banks' cash reserves was a matter of policy of the Department of Finance?

Dr. CLARK: And the Bank of Canada.

Mr. McGEER: In which the Bank of Canada concurred, if you will. Now if you will turn over to page 6 I think you will find an explanation of the reasons why the Bank of Canada purchased some of the government securities offered. I read under credit expansion:—

During 1943, the Canadian deposit liabilities of the chartered banks increased by \$748,000,000. In addition, total active note circulation (including Bank of Canada notes) rose by \$161,000,000, making the total expansion in the volume of money, therefore, \$909,000,000 during the year.

How did the chartered banks increase the total volume of money in Canada by \$748,000,000?

Dr. CLARK: It resulted primarily from the action mentioned in the first section you read, Bank of Canada purchases in the open market of government securities.

Mr. McGEER: And that money went into circulation and found its way to the vaults of the chartered banks?

Dr. CLARK: Yes, to some extent in Bank of Canada notes but largely in Bank of Canada deposit balances, balances with the Bank of Canada.

Mr. McGEER: What effect did that have on the total volume of purchasing power in circulation?

Dr. CLARK: It increased the volume of purchasing power in circulation by \$909,000,000 in the year.

Mr. McGEER: Tell me this, what would have been the difference in the total volume of money in circulation if the Bank of Canada had purchased the whole \$909,000,000 of securities financed under the system that was followed?

Dr. CLARK: If it had purchased \$909,000,000 worth of securities probably the increase in deposit liabilities of the banks would have been materially larger than that, substantially larger.

Mr. McGEER: How would they have been larger? That is what I want to know?

Dr. CLARK: The purchase of securities by the Bank of Canada would result in the deposits of Bank of Canada cash increasing in the chartered banks. Therefore, the cash reserves of the chartered banks would have gone up and there would have been a tendency to increase their deposit liabilities by the purchase of securities. While probably there would have been no chance for making increased loans it would have tended to increase the purchase of securities and therefore to increase the deposit liabilities of the chartered banks.

Mr. McGEER: From whom would they have purchased these securities?

Dr. CLARK: Presumably from the general market.

Mr. McGEER: Is there any limit to-day upon the power of the banks to purchase securities in the open market?

Dr. CLARK: The limit is in section 59. The banks must keep a legal minimum cash reserve of 5 per cent. In actual practice on grounds of prudence they find it necessary to keep approximately double that 5 per cent.

Mr. McGEER: Now, to-day we have in issue roughly \$1,400,000,000 of Bank of Canada notes. That is right, is it not?

Dr. CLARK: I do not think it is quite that large. On December 31 last Bank of Canada notes in circulation were \$751,000,000.

Mr. McGEER: Mr. Towers told me that the deposits of the banks in the Bank of Canada were the same as notes in issue?

Dr. CLARK: They have the same general effect. They are the same thing in essence but you were speaking of notes in circulation.

Mr. McGEER: I am speaking of notes which are available to the banks either on deposit with the Bank of Canada, in their possession or in general circulation.

Mr. GRAHAM: You still use the word "notes".

Mr. McGEER: Notes, currency.

The CHAIRMAN: Mr. McGeer, I must rule that this discussion which you are bringing out is not relevant to section 129.

Mr. McGEER: I appeal from your ruling, Mr. Chairman. I shall take it to the floor of the house.

Mr. MARIER: Take a vote.

The CHAIRMAN: You appeal against the chairman of the committee?

Mr. McGEER: Yes.

The CHAIRMAN: All right, gentlemen, what is your pleasure? Do you sustain my ruling?

Mr. McGEER: I ask for a recorded vote.

The CHAIRMAN: All right. Please raise your hands, gentlemen. All those in favour? Opposed? Gentlemen, apparently I have been sustained. The clerk just informs me that there is no appeal in committee against a ruling of the chair.

Mr. McGEER: We can have a recorded vote.

The CHAIRMAN: We have had a vote.

Mr. McGEER: I want the names recorded.

Hon. Mr. HANSON: That is all right; let us have it. That is the shortest way to deal with it.

Mr. MACDONALD (*Brantford*): Is there an appeal from the ruling of the chair? If there is no appeal from the ruling of the chair—

The CHAIRMAN: There is in the house but not in the committee, so the clerk informs me, but if it is desirable to have a recorded vote—

Mr. CLEAVER: Let us record it.

Mr. McNEVIN: Record it, for goodness sake.

Mr. MACDONALD (*Brantford*): We ought to abide by the rules. If it is not in order to have a recorded vote I do not think we should do so. I think in this committee we should get down to the job and proceed according to the rules. Everybody has been given a wide latitude. I think this is the thirtieth some odd meeting of this committee. I think we ought to abide by the rules and everyone of us stay by them.

The CHAIRMAN: Mr. McGeer, I might just say there were only three who sustained your contention against the chairman. It seems rather, shall I say, a waste of time.

Mr. McGEER: I do not agree with you. I have asked for a recorded vote and I want it.

Mr. JAKES: Yes, I would like to go on record.

The CHAIRMAN: All those in favour of sustaining the ruling of the chair will please say yes as their names are called.

Mr. MACDONALD (*Brantford*): Do I take it, Mr. Chairman, that on every future occasion when your ruling is objected to we are going to take a vote?

The CHAIRMAN: No. The clerk is looking up the reference to the particular matter, and as soon as we have that and I read it clearly myself to the committee we will abide by that ruling, but in the meantime I think we will save time by taking a vote and having it recorded.

Mr. SLAGHT: As a matter of information, I am not clear what the ruling of the chair is. Am I right in thinking that your ruling was that the particular questions recently asked—

The CHAIRMAN: Yes.

Mr. SLAGHT: —were more appropriate under section 59?

The CHAIRMAN: I had that in mind.

Mr. SLAGHT: We still have 59.

The CHAIRMAN: Yes.

Mr. NOSEWORTHY: I think you should make your ruling clear.

The CHAIRMAN: I have made the ruling that the questions which were being asked by Mr. McGeer were not relevant to section 129. That was my ruling.

Mr. MACDONALD (*Brantford*): But they may be relevant to some other section.

The CHAIRMAN: You, Mr. Slaght, I understand are in favour of my ruling?

Mr. SLAGHT: I am.

Mr. GRAY: I think that with the chairman ruling as he has and trying to be fair all through the sittings surely to goodness we can uphold the chairman without recording our votes on appeal from the chair. I know the chairman does not mind being put in that position but I would hope it would not be necessary.

Mr. SLAGHT: Dr. Clark will be here when we come to section 59 if it is desired to question him?

The CHAIRMAN: He will be here when section 59 is before the committee. Will you record the vote, please?

(Whereupon a recorded vote was taken).

Mr. McNEVIN: Give us the result of the vote, please.

The CHAIRMAN: The chairman's ruling is sustained by a vote of sixteen to two. Now, proceed, Mr. McGeer.

Mr. McILRAITH: Mr. Chairman, before we continue I think out of fairness I ought to make it clear why I did not vote to support your ruling. I am sorry I was late coming in and did not get the earlier discussion but as I see the thing we are being asked to vote this morning at the request of a committee member. As far as I am concerned the test here must be what is before the committee, not the whims or wishes of individual members of the committee. I do not think that committee members should be asked to vote one way or another merely to satisfy the wishes of a member. The test that must be applied at all times is whether it is a subject matter properly before the committee.

The CHAIRMAN: Will section 129 carry?

Hon. Mr. HANSON: Carried.

The CHAIRMAN: Will section 140 carry?

Hon. Mr. HANSON: Carried.

The CHAIRMAN: Will section 146 carry?

Mr. GRAHAM: There is a slight amendment suggested by the minister to that section.

The CHAIRMAN: 146?

Mr. GRAHAM: There is a slight amendment.

The CHAIRMAN: We have an amendment here. Will you explain your amendment, please, Mr. Minister?

Mr. GRAHAM: It is the penalty clause.

Hon. Mr. HANSON: Substitute "not exceeding" on page 78, line 3.

Hon. Mr. ILSLEY: The section as found in the draft bill provides for a penalty of \$250, and it is proposed to substitute the words "not exceeding" for the word "of".

Hon. Mr. HANSON: Making it the maximum instead of a fixed penalty.

Hon. Mr. ILSLEY: It will make it a maximum instead of a fixed penalty. That is the way it was in the old Act.

Mr. MACDONALD (*Brantford*): I do not see how we can carry 146 until we carry section 53. The wording of 146 is:

If any copy of the statement or of the profit and loss account submitted under section 53 of this Act—

Now, Mr. Chairman, if section 53 of this Act is not passed then section 146 is of no effect. My submission is we must of necessity pass 53 first.

The CHAIRMAN: After looking at the uncarried clauses I would suggest we come back to 53. I think the suggestion of Mr. Macdonald is a sound one. Suppose we take up section 53. Previous to section 53 we have left 1, 2, 3 and 20.

Hon. Mr. ILSLEY: I am sorry but section 53 must stand.

The CHAIRMAN: The minister is not ready to go with 53. 54?

Mr. TOMPKINS: 54 is all right.

The CHAIRMAN: Shall section 54 carry?

Mr. LAFONTAINE: Carried.

The CHAIRMAN: Then, we come to section 56. Mr. Slaght, we have your amendment to the amendment.

Mr. SLAGHT: I will try to be just five minutes.

The CHAIRMAN: Take ten minutes.

Mr. SLAGHT: The amendment is found on the first page of the proceedings of July 11, that is No. 33 of our proceedings, the one that came in this morning. The amendment recognizes the right of the banks to deduct in any given fiscal year the actual losses that they incur and negatives the right of the banks to deduct in that fiscal year the possible future losses which the directors may set aside under the title of inner reserves. The matter was very fully discussed as incident to an earlier resolution that I moved, so that my position can be stated in a very few sentences. I want to have regard to whether or not we recognize the right of inner reserves set aside by the directors, to some extent better controlled now because of the amendment of Minister of Finance, which in the future will place the previously unfettered right of the directors to set aside as much as they choose and with no power to curb them. In my view the amendment of the minister is a distinct step in the right direction, but it leaves still for the—I do not think anybody can hear me, Mr. Chairman.

The CHAIRMAN: Just a minute, Mr. Slaght. The minister is reading the amendment.

Mr. SLAGHT: Shall I proceed?

The CHAIRMAN: Just a minute.

Mr. SLAGHT: All right; I will wait.

Mr. MACDONALD (*Brantford*): We are on section 56?

Mr. SLAGHT: Oh, yes, section 56. The minister has an amendment, and I moved a sub-amendment. I am discussing my sub-amendment, and I shall be very brief.

Mr. GRAY: You said it was a step in the right direction, but I did not hear what you said after that.

Mr. SLAGHT: I stopped because of the noise.

The CHAIRMAN: Proceed, Mr. Slaght.

Mr. SLAGHT: The minister's statement, which will come to us in a moment when the sub-amendment is disposed of, by itself justifies, I think, the lengthy discussion that was had on the matter of inner reserves, because it affords for the first time under the Bank Act a control over the previously unfettered discretion of the directors. My amendment differs from the minister's view inasmuch as it is opposed not to reserves in addition to the disclosed reserves, not to the directors with the approval of the minister or otherwise, increasing in their judgment the amount of the banks' reserves from time to time, but disapproves of their hiding them and not bringing them into the open. One of the reasons for that is that had they brought them into the open and put them with the disclosed reserves, the amounts they set aside called inner reserves would be taxed in the current fiscal year in which the money is earned. That is the principle that I see so

clearly from my viewpoint. That being so, it only remains for the members of the committee to determine in their own minds whether it is desirable for parliament to approve, for the next ten years, the right of bank directors to hide from their shareholders, from the Banking and Commerce Committee and parliament, the amount that they see fit to set aside out of earnings for a current year and allow it to remain in the vault, and simply mark it as so many million dollars. Let us say a given bank marks \$2,000,000 as inner reserves, and therefore frees it from taxation for the fiscal year of 1943 when the money was earned. We learned from Mr. Clarkson—and I think he is quite right—that that amount called inner reserves, say of \$2,000,000 for a given bank, is not earmarked but lies in the vault. We learned from Mr. Wedd, and I think he is right, that that money and those securities, in whichever form they may be—Mr. Clarkson said that part took one form and part the other—are of precisely the same character left in the vault as the disclosed reserves are. In other words, it is a reserve put aside and there is no difference in its character, except that it enables the bank to escape payment of taxes on it for the fiscal year. My view, in a nutshell is this. That money being earned in that fiscal year, the safe way to do is to tax it; and it is admitted that it may never be used for the purpose of liquidating the doubtful debt the directors had in mind when they set it aside. After five years that debt which they thought was precarious may turn out to be all right and may be paid in full; because Mr. Tompkins has told us that as soon as you set aside any amount for hidden reserves, it becomes the money of the shareholders and could be paid to them as dividends.

Hon. Mr. HANSON: Oh, no.

Mr. SLAGHT: Oh, yes.

Mr. JACKMAN: That is misleading again, Mr. Chairman. I said that every time Mr. Slaght made these statements which are calculated to mislead, I would stand up and correct him, if I were allowed to do so. Mr. Slaght has just said that these appropriations for inner reserves are the shareholders' money, and he cited Mr. Tompkins in support of that contention. Those words do not appear in the statement Mr. Tompkins made at the time, and I can only protest against it. I think every member of the committee understands exactly the nature of the reserves, that they cannot possibly become the property of the shareholders and be distributed to the shareholders without going through the profit and loss account where they are going to be taxed.

An Hon. MEMBER: Hear, hear!

Mr. SLAGHT: Of course, they go through the profit and loss account and would then be taxed. But let my friend at least understand what I say, and let me read him what Mr. Tompkins said. I have said nothing this morning to indicate that if after a lapse of years a bank sees fit to make such of the inner reserves as are still left and lying there, available for dividends for shareholders, then before they do so, they will not be taxed. They will have to be taxed. Nobody has gainsaid that.

Mr. GRAHAM: Would you favour double taxation?

Mr. SLAGHT: I do not favour double taxation, no.

Mr. GRAHAM: That would follow.

Mr. SLAGHT: Oh, no. If you tax them in the fiscal year in which they are earned, they go into disclosed reserves and disclosed reserves can be distributed to shareholders, because they have been taxed, without a second taxation, in the hands of the corporation. Do not misunderstand that.

Mr. JACKMAN: Will Mr. Slaght permit me to ask him a question?

Mr. SLAGHT: Not until I correct your mis-statement, if you will allow me. Then you may ask me a question. My friend Mr. Jackman, who might be styled the human yeastcake, the great interrupter or riser on every occasion—

The CHAIRMAN: Order, Mr. Slaght.

Mr. SLAGHT: On page 257 I want you to hear what Mr. Tompkins did say. I hesitate to trouble the rest of the committee, but I want Mr. Jackman to listen. In the middle of page 257, where Mr. Tompkins is being examined not by me but by Mr. Fraser, he says:—

I would like to conclude my remarks by saying that I consider the inner reserves of the banks are reasonable, having regard to present and prospective risks in the banking business. I think that is a fair statement. I was also going to add, but perhaps it is superfluous, that these reserves are the moneys of the shareholders.

Hon. Mr. HANSON: Are what?

Mr. TOMPKINS: Are the moneys of the shareholders and could be paid out to the shareholders in the form of additional dividends.

This young gentleman rises to say that that is a mis-statement of fact by me when I directed the attention of the committee to the exact language which Mr. Tompkins had used.

Mr. JACKMAN: I wonder if we might ask Mr. Tompkins to elaborate on this, because Mr. Slaght does not seem to be able to get it through his impervious head that this is not the actual fact.

Mr. SLAGHT: I do not want to be interrupted for the moment.

The CHAIRMAN: Just a minute, Mr. Jackman. I would ask you to withdraw the word "impervious".

Mr. JACKMAN: Mr. Slaght has referred to me in a certain way.

Mr. SLAGHT: I did not catch the bouquet. What was it?

Mr. JACKMAN: Your impervious head.

Mr. SLAGHT: Impervious head?

The CHAIRMAN: I must rule that yeastcake is out of order.

Mr. JACKMAN: I want you to put a bit of yeast in there and expand so you can absorb.

Mr. SLAGHT: If my hon. friend, instead of bothering with my head, will pay more attention to the vacuum that is under the skull of his head, we will get along faster.

The CHAIRMAN: Order, please.

Mr. JACKMAN: Mr. Chairman, I asked if we could have Mr. Tompkins elaborate on what he said in respect to those questions which Mr. Slaght has just cited. They are undoubtedly true perhaps as far as they go, but they are not the whole truth.

Mr. MACDONALD (*Brantford*): Mr. Chairman, may I suggest to you—

The CHAIRMAN: Just a minute. Mr. Slaght, I assume you want the truth, the whole truth and nothing but the truth?

Mr. SLAGHT: Yes, if you can get it?

The CHAIRMAN: Suppose we accept Mr. Jackman's suggestion and ask Mr. Tompkins if he desires to make a further statement or to amplify the remarks you have just quoted?

Mr. SLAGHT: Yes, Mr. Moore, I shall be glad to do that, if you will permit me to show what Mr. Ilsley says about the taxable character and non-taxable character of the inner reserves. Then we will hear Mr. Tompkins.

The CHAIRMAN: I think that is a fair compromise.

Mr. SLAGHT: All right. I am referring to Mr. Ilsley's statement which is embodied in our records, no doubt; but I happen to have the mimeographed.

pamphlet that he gave to us. On page 6 we find this statement, about one-third of the way down. I may say that Mr. Ilsley and I are not in disagreement, in my judgment, as to the character of inner reserves and as to the need, when the directors set aside an excessive amount as inner reserves, for him to step in; and his amendment takes the power to do so, and tell them, "You put aside too much," and tell the Minister of National Revenue that they have put aside too much and freed that excessive sum from taxation, which ought to be taxed, and he puts the Minister of National Revenue on their trail to tax it. Yet my friend Mr. Jackman says that they were not free from taxation. This is what the minister says:—

Under this arrangement—

And he is referring to their inquiry.

—to the extent that the inner reserves become larger than are deemed reasonable and necessary, the Minister of Finance has the responsibility of seeing that the annual provision for losses made by the banks is subjected to tax.

Why would it be subjected to tax if it were not free from taxation until he stepped in? Continuing:—

This is, I will admit, a moral responsibility but I find it difficult to imagine a case in which it would not be effective. Nevertheless, now that the question of the adequacy of inner reserves is becoming more than an academic one and in spite of certain objections, I believe it desirable that the Minister of Finance should have specific legal authority to direct that where, in his opinion, amounts transferred to a bank's inner reserves are in excess of reasonable requirements having regard to all the circumstances, any such excess should be taken into net income and subjected to tax. Therefore I am proposing to move at the appropriate time an amendment to the bill to accomplish this purpose.

Then a little lower down, near the end of the page, we have the amendment before us, and it is for the very purpose of subjecting untaxed earnings to tax, because the hidden reserve is made too high.

Mr. JAMES: Because they have become earnings.

Mr. SLAGHT: Then he adds this:—

I wish to emphasize again that inner reserves, which are no more than reasonable and necessary, are not part of shareholders' equity. They represent only the writing down of assets to their true value and should not be subject to tax.

That is the clearest indication that in the mind of the minister, not only are they not subject to tax, as he of course sees, but in his view—and he is well entitled to his view—they should not be subject to tax. Yet my friend Mr. Jackman had the temerity to tell this committee the other day when I indicated that they were not subject to tax that I was making a mis-statement of fact. That is all I desire to say to Mr. Jackman. I will be glad to have Mr. Tompkins make a statement.

Hon. Mr. HANSON: Will you allow me to ask you a question?

Mr. SLAGHT: Yes.

Hon. Mr. HANSON: Would you not agree that before these inner reserves could possibly reach the shareholders in the form of dividends, they must pay taxes?

Mr. SLAGHT: Certainly. I have never suggested the contrary. But let me put this to you, and it is my whole point. In the year they are earned, as earnings, the losses for a particular year have been ascertained and are deducted. This hidden reserve is an additional possible amount that might be

lost five years hence. Therefore when the five years hence comes around, and the apprehension becomes a reality and in the fifth year from this year there is a loss sustained, the fund that you would have taxed, if I had my way, in the current year it was earned, is then taken and used to defray a bad debt, and should be deducted from the earnings of that year and reduce the taxes of the bank, because that is a proper operating expense in the year that the loss is incurred.

Mr. MACDONALD (*Brantford*): But if the loss were incurred, according to your plan there would not be funds with which to meet it.

Mr. SLAGHT: Oh yes, there would.

Mr. MACDONALD (*Brantford*): Oh no; there absolutely would not.

Mr. SLAGHT: Oh, my friend is wrong. He has forgotten that I said to set aside an equivalent amount of the inner reserves on top of the disclosed reserves, but put it out in the sunlight with the disclosed reserves, which will be that much more, and there is the source to go to meet losses for the year, five years ahead.

Mr. MACDONALD (*Brantford*): Mr. Slaght, it cannot be paid out in taxes and also be in a reserve, whether it is an inner reserve or an exposed reserve. It cannot be in the two places.

Hon. Mr. HANSON: They are taxed under the excess profit tax 100 per cent less the refundable part. There will not be anything left.

Mr. SLAGHT: Out of \$47,000,000 the taxes last year were \$15,000,000; and we have never had that broken down.

The CHAIRMAN: Mr. Slaght, I know you do not desire to repeat your former statements, and I would ask you to be careful to keep to that good resolution.

Mr. SLAGHT: Yes.

The CHAIRMAN: And gentlemen, I would ask you to please not interrupt Mr. Slaght. He has only five minutes.

Mr. MACDONALD (*Brantford*): Yes.

Mr. FRASER (*Northumberland, Ont.*): Twenty-five.

Mr. SLAGHT: Twenty-two was enough.

The CHAIRMAN: Then you are going to ask Mr. Tompkins to amplify his statement?

Mr. SLAGHT: Yes. Mr. Tompkins, Mr. Jackman wants you to elaborate on your statement that I referred to, having regard to inner reserves. It must be remembered that you were good enough to volunteer this statement, and perhaps I should give you the exact language.

The CHAIRMAN: No. 'We have had it already.'

Mr. SLAGHT: All right. Your statement was that the inner reserves were the shareholders' money and could be paid out in dividends. There is no difference between Mr. Jackman and myself, that if you take hold of them, and convert them into disclosed reserves or rest and use your rest to pay dividends, that they would become taxable. Is there any difference between you and me on the subject?

Mr. TOMPKINS: It seems to me that clears up the whole point. But let me say this. Of course, the proceedings of this committee have been a great source of education to me. I can quite see now that in an endeavour, and an honest endeavour, to answer certain questions, I perhaps did not answer them as completely as I might have answered them in the first place.

Hon. Mr. HANSON: Hear, hear!

Mr. TOMPKINS: An honourable gentleman, who is extremely clever in his profession, picked out certain questions, as I mentioned before, on pages 418

and 544 of the proceedings, and used those questions as the basis for a certain argument. That is quite within his rights, naturally. I confess right away, if it will be any satisfaction to Mr. Slaght, that those answers that I gave in the first place were perhaps not as complete or not as adequate as they might have been. It is perfectly obvious that when I referred to the reserve as being the shareholders' money, I could only mean to the extent that it might not ultimately be needed.

Mr. SLAGHT: Quite so.

Mr. TOMPKINS: And it is further quite obvious, I think, that the only way they could be paid out to the shareholders in dividends is through being moved into the profit and loss account of the shareholders and paid out in that way.

Mr. SLAGHT: Quite so. And subjected to taxes.

Mr. TOMPKINS: And after being taxed.

Mr. SLAGHT: Then we are one on the subject.

Mr. CLEAVER: Mr. Slaght, if you do not mind an interruption, I would say that having quoted Mr. Tompkins, you would want to quote his whole statement, and the balance of his statement in regard to inner reserves was that ever since our banking system was established the inner reserves have not been excessive to the point where one dollar has ever been transferred from inner reserves to profit and loss account and on the way to general reserve, but on the contrary during the last depression some 29.5 million dollars had to be taken out of general reserve to bolster up the inner reserve.

Mr. SLAGHT: I rely on that. I quite understand that. The committee understands all that. It simply illustrates that for nineteen years, as Mr. Tompkins tells us, not a dollar out of inner reserves has ever been transferred to disclosed reserves and subjected to taxation in the process of transfer. That merely emphasizes it.

Mr. CLEAVER: And there is also the fact that on the contrary there were 29.5 millions taken from the general reserve and put in the inner reserve.

Mr. SLAGHT: Of course there was, but what has that got to do with the non-taxability of the inner reserve?

Mr. CLEAVER: It is rather obvious to me.

The CHAIRMAN: Mr. Tompkins has a statement to make.

Mr. TOMPKINS: There again I would like to add this, that when I answered that question I had very definitely in my mind the transfer of a lump sum expressed in this way, if you like, "transfer from inner reserve not required X thousand dollars." Mr. Clarkson explained in his evidence on Friday last that in effect certain of these reserves do come back in the form of recoveries. I just wish to make that qualification.

Mr. SLAGHT: I do not understand with respect to the first part of your statement. You say inner reserves have been transferred to outer reserves and taxed?

Mr. TOMPKINS: In the sense that certain recoveries have been made from time to time—recoveries from debts that were at one time considered bad. There has been a transfer in that sense, but not in the sense of a lump sum transfer which was what I had very definitely in my mind when I replied to that question.

Mr. JACKMAN: May I ask you a question? You may not care to answer this because it may be disclosing certain things that the committee is not entitled to. Would you be good enough to say whether in the year 1943 the amount of recoveries from debts which were provided for, written off under the so-called inner reserve business, was greater than the amount set aside at the end of the year as inner reserve against assets that were still outstanding on the books of the banks? You understand my question? Every year certain recoveries are made

for which inner reserves have been provided. Is that not so? Do you understand my point? We have a loan to a company of \$100,000. It is considered slightly doubtful so the bank reserves \$10,000 against it and it stands on the books of the bank at \$90,000. At the end of the next twelve months that loan comes back in full and your \$10,000 is recovered which was in the form of an inner reserve and that \$10,000 must go in the earnings or the P & L account of the bank, must it not?

Mr. TOMPKINS: That is what Mr. Clarkson referred to.

Mr. JACKMAN: In the year 1943, which was a good bank year because it was a good year for business, would you be good enough to explain to the committee, if it is within your province, whether or not the extent of these recoveries was equal to, less than, or greater than the amount the banks set aside at December 31, or the end of their fiscal years, in 1943? Was that amount they set aside greater or less than the amount they recovered in the year and which was subject to 100 per cent E.P.T.?

Mr. TOMPKINS: That is a difficult question to answer because there is an unknown factor. The banks never know in any given year just what their losses may be on certain assets.

Mr. JACKMAN: And they have a reserve against their actual losses in 1943; they have a reserve against their probable losses. What I am asking you about is in regard to the reserve for probable losses. Let us say in a particular bank there is \$1,000,000. How much did they recover from assets which they wrote down in 1936, 1937, 1938, 1939 and previous years, which came back and proved to be good and the reserve was not required and these recoveries over and above book value were subject to the 100 per cent E.P.T.? Were those recoveries greater than the amount set aside at December 31, 1943?

Mr. TOMPKINS: You are trying to go beyond the statement that was put on *Hansard* by the minister which expressed the banks' experience with regard to losses on an average basis for fifteen years.

Mr. JACKMAN: I am trying to get some new information on this.

Mr. TOMPKINS: I think that is the only fair way to express it.

Mr. JACKMAN: The difficulty in trying to support a principle which some of us believe in, namely that inner reserves should not be disclosed, is simply this. The reason one cannot be explicit is we have not got the actual figures. I am not asking for the figures but it is most difficult to argue for that principle when we cannot get any figures at all. I am asking for something new if it is possible to give it to us, namely, was the amount set aside for the inner reserves at the end of last year as large as the amount recovered during the year?

Mr. TOMPKINS: I think the statement will have to speak for itself.

Mr. JACKMAN: What statement?

Mr. TOMPKINS: The statement on *Hansard*.

Hon. Mr. HANSON: It does not give that information. What Mr. Jackman wants to know is if in the event recoveries exceed the amount set aside for probable losses would that over plus not automatically go into the profit and loss account and be subject to 100 per cent excess profits tax?

Mr. TOMPKINS: I think Mr. Clarkson answered that fairly well.

Hon. Mr. ILSLEY: I certainly understood Mr. Clarkson said in his evidence—and I am trying to find it—that in the case of certain banks of which he was the auditor that the recoveries were in excess in certain years of the appropriations to inner reserves, and therefore the inner reserve was reduced. I understood that.

Hon. Mr. HANSON: Instead of taking them into the profit and loss account and subjecting them to taxation they reduced the inner reserve? I should like to have that clarified.

Hon. Mr. ILSLEY: Well, I—

Mr. MACDONALD (*Brantford City*): If I may speak to the amendment—

Hon. Mr. HANSON: Let us get this point cleared up.

Mr. MACDONALD (*Brantford City*): While it is being looked up—

The CHAIRMAN: Are you speaking to the amendment or the amendment to the amendment?

Mr. MACDONALD (*Brantford City*): The amendment to the amendment.

Mr. GRAHAM: I suggest that Mr. Macdonald be kind enough to let this thing go along in chronological order on the record and that the minister be asked to deal with Mr. Hanson's point.

Mr. SLAGHT: I have just one question and then I am through. Referring to the statement the minister made from which I read extracts—and I do not need to go over it all again—where he says:—

Any such excess—

that is the excess you four gentlemen in your review of the matter thought was too high—

—should be taken into net income and subjected to tax.

You agree with that way of putting it, do you not?

Mr. TOMPKINS: Certainly.

Mr. SLAGHT: So that the excess before it is turned back has not been taxed in the fiscal year and when it is turned back it will be taxed.

Mr. TOMPKINS: I think the statement speaks for itself.

Mr. SLAGHT: I think so.

The CHAIRMAN: Is it the desire of the committee to vote on the amendment to the amendment?

Mr. MACDONALD (*Brantford City*): I would like to make a statement.

The CHAIRMAN: Let Mr. Noseworthy speak.

Mr. MACDONALD (*Brantford City*): I am always obliging.

Mr. GRAHAM: I think this matter that Mr. Hanson raised—

The CHAIRMAN: Just a minute, Mr. Graham; let Mr. Noseworthy make his statement.

Mr. GRAHAM: Why not get the minister's reply to Mr. Hanson in the record?

The CHAIRMAN: Perhaps that is what Mr. Noseworthy is going to suggest.

Hon. Mr. ILSLEY: Excuse me just a minute; this is the statement of Mr. Clarkson to which I referred:—

By Mr. Fraser (Peterborough West):

Q. What I am getting at is this. Statements have been made here that the banks are not paying any taxes on those inner reserves.—A. I should like to clear that up now.

Q. Yes.—A. I have heard it said that the banks are not paying their fair taxes. I want to say that so far as some of the institutions which I have had to do with are concerned, they have reduced their inner reserves in the last few years by over \$1,000,000 and paid the maximum taxes on that, a situation which to my mind has been very unfair to them in this way. Ten years or seven years ago, or whatever the time is, there were loans on the books of the bank which appeared to be bad, doubtful, and a reserve was made against them so as to carry the loans as an asset of the bank for which they were believed to be worth. Then after being written off in that way and carried into its inside reserve, some of such loans came back in later years and in 1943; having been written off as a

deduction from profits ten years ago, such recoveries were added to profits when they were received. This increased profits in such years and left part of them subject to excess profits taxes of 100 per cent as compared with 15 per cent taxes which the bank saved in the earlier period when such loans were written off. The course pursued by the bank was a proper course, but what I am saying to you is that by occurrences of such kind the inside reserves of some institutions have been reduced and the amount of taxes which they have paid has been unduly high. I think there is a situation in that connection which is worthy of consideration.

Mr. FRASER (*Northumberland*): There was also along the same line an increase in the market value of the investments which would be reflected in the same way and would go into the excess profits tax.

Hon. Mr. ILSLEY: On realization.

Mr. TOMPKINS: On realization only.

Mr. FRASER (*Northumberland*): Investments that were written down, valued at the end of 1937, would be worth much more and would be revaluated by the bank auditors at the end of 1943 at the market value at that time. That increase in the investment portfolios of the banks would also be reflected in the increased profits and subject to taxation.

Hon. Mr. ILSLEY: I do not think until realization, but the increase in the value of the securities might be grounds for the Minister of Finance saying at a certain stage, or the Minister of National Revenue saying at a certain stage, that now the inner reserves are greater than need be.

Mr. FRASER (*Northumberland*): That is the point I want to make.

Hon. Mr. ILSLEY: In which event if he said that the excess would be subject to taxation.

Mr. FRASER (*Northumberland*): That is the point I want to bring out.

Mr. SLAGHT: Like any other company if they get unexpected revenue in a given year they pay taxes on it.

Mr. JACKMAN: Mr. Clarkson said the other day he doubted if more than ten members of the committee understood the exact nature of the inner reserves. Mr. Slaght objected to that statement.

The CHAIRMAN: Please, Mr. Jackman, do not open old sores.

Mr. JACKMAN: It is not opening a sore at all. I doubt very much whether any member of the committee understands exactly how these inner reserves are made up, and I include myself among that number despite what Mr. Slaght has said about my imperfect background. I think we should have more information.

Mr. SLAGHT: I did not mean that, Mr. Jackman.

Mr. JACKMAN: You and I understand each other perfectly, Mr. Slaght.

Mr. FRASER (*Northumberland*): I hope so.

Mr. JACKMAN: We do. I do not believe we yet understand exactly how these inner reserves are set up. I do not understand them myself.

Mr. SLAGHT: Speak for yourself.

Mr. JACKMAN: I will. I want to know this from some of the bankers here or from some of our own people. I gathered from Mr. Slaght's impression that these inner reserves simply mount up and mount up, and perhaps there may be a number of deductions from them, and the inner reserves may bear no relation whatsoever to the amount of assets which the bank has from time to time or the amount of risk which may attach to these assets in view of the economic outlook. What I want to know is, do the banks at the end of each fiscal year review their total assets and calculate what the appropriate

reserve should be against these assets, and if the reserve which they had at the end of the previous year, less recoveries during the year, is inadequate, then do they feel they should make an appropriation from the revenue that came into them during the year in order to look after some of these loans which may go bad in their opinion.

Mr. SLAGHT: We have had all this twenty times.

Mr. JACKMAN: I do not think we have at all. What I want to know is do the banks at the end of the year look at all their assets and decide what should be the reserve against those assets, and irrespective of what it might have been at the end of the previous year?

Mr. TOMPKINS: I think the minister's statement in the first place and other evidence, particularly that of Mr. Clarkson on Friday, really cover that point. He made it quite clear they make a complete revaluation of their assets annually.

Mr. NOSEWORTHY: Mr. Wedd made that quite clear.

The CHAIRMAN: Is the committee ready to vote on the amendment to the amendment?

Mr. McGEER: Just before we vote on that, in the statement at page 136, Mr. Tompkins—

Mr. TOMPKINS: Pardon?

Mr. McGEER: The statement at page 136 of the evidence, item 7 is provision for taxes, \$10,500,000 and in 1943 \$15,900,000?

Mr. TOMPKINS: Yes.

Mr. McGEER: I take it that includes all taxes, municipal taxes, taxes on real estate, and income taxes. Could you give us a breakdown of that figure?

Mr. TOMPKINS: I think I could supply that. You mean for 1943?

Mr. McGEER: Yes.

Mr. TOMPKINS: I think I can get the figures for 1943. I will not be certain about how soon I might get them for all the other years.

Mr. McGEER: I only want it for 1943.

Mr. SLAGHT: Will you show the rate of taxation and the amount of income on which they were taxed?

Mr. TOMPKINS: I do not think that would be quite feasible. After all you are entering into a great amount of territory there with regard to municipal, dominion, and so forth.

Mr. SLAGHT: I suggest this committee covers the whole territory.

Mr. TOMPKINS: Apparently that is the intention.

Hon. Mr. HANSON: The municipal tax varies in every municipality.

Mr. SLAGHT: I do not care about the municipal tax, but my point is this that there was \$15,900,000 provision for taxes. You are going to be able to tell us how much was the municipal total, the total of the provincial, and the total of the dominion taxes? The dominion tax will be the corporation income tax, will it not?

Mr. TOMPKINS: Corporation and excess profits tax.

Mr. SLAGHT: Both; it will be levied at certain rates on a certain lump sum of money. That is inevitable.

Hon. Mr. ILSLEY: It would vary with individual banks.

Mr. SLAGHT: Variable between banks but he has got all the banks. He could not make the \$15,900,000 if he did not have it all. He has added it up and got \$15,900,000. What Mr. McGeer suggests is that should be broken down, and

what I am particularly interested in is the amount you use for a rate to tax for dominion government taxes, both income and excess profits. That is the rate you use, and then the bulk sum you use it against in order to get that portion of the \$15,900,000.

Mr. TOMPKINS: Of course, Mr. Slaght, the rates would vary with individual banks. It would hardly be feasible to give you an overall rate that would apply. May I suggest that I think I can give you only the amount of dominion taxes. There will not be any provincial taxes in this total now. There will be municipal taxes, and there will be some small amount of foreign taxes. I hardly think it is feasible to give you the rate as you suggest with regard to the dominion taxes. There will be a certain total of dominion taxes in which there will be X dollars refundable.

Mr. SLAGHT: Can you give us the gross sum by way of net earnings—that is what they tax—of the ten banks to which you applied different rates to get the portion of the federal taxes included in the \$15,900,000?

Mr. TOMPKINS: I have not that information.

Mr. SLAGHT: Perhaps you realize if you did give us that and we then knew the tax you would have to disclose thereby the hidden reserve because we would take a pencil and find out.

The CHAIRMAN: Is it the wish of the committee to vote on the amendment to the amendment?

Mr. NOSEWORTHY: Mr. Chairman, I do not think we can vote intelligently on the amendment to the amendment unless we know just what the effect of the amendment to the amendment is if put into force, what effect it would have upon the inner reserves of the banks. There have been statements made that if these inner reserves were subject to taxation the entire amount would be eaten up by the 100 per cent excess profits tax. There have been statements made in this committee to the effect there would be no reserve left because they would come under the 100 per cent excess profits tax. There have been other statements that part of these reserves would be subject to the 100 per cent. I think we should have the picture of just how this amendment to the amendment would affect these inner reserves, just how that principle of taxation would affect them? None of us want to vote for an amendment that is going to deprive the banks of the ability to set up adequate reserves, and if that is to be the effect of this amendment to the amendment then I want to vote against it. I should like to know what the effect would be before I can vote intelligently on it.

Hon. Mr. ILSLEY: That would involve disclosing the position of each individual bank to determine whether it was in the 100 per cent class or not. It would involve doing that, and I do not think that information should be given. I think this matter should be dealt with on the basis of principle. I think I have given before the reasons why I think that these appropriations to inner reserves should be treated as operating costs or operating expenses in so far as taxation is concerned to the extent that they are reasonable.

Mr. FRASER (*Northumberland*): Mr. Minister, in connection with Mr. Noseworthy's question I wonder if this would clarify it. They would certainly be subject to the 40 per cent corporation tax.

Hon. Mr. ILSLEY: Yes.

Mr. FRASER (*Northumberland, Ont.*): That would reduce by 40 per cent the possible amount, even if there were no excess profit tax at 100 per cent. Is that correct?

Hon. Mr. ILSLEY: Yes.

Hon. Mr. HANSON: They are all in the excess profit tax.

Mr. FRASER (*Northumberland, Ont.*): Yes. Even if that were not disclosed, they are subject to the 40 per cent?

Hon. Mr. ILSLEY: Yes.

Mr. FRASER (*Northumberland, Ont.*): So that would necessitate the increasing of the necessary amount set aside in inner reserves by 40 per cent, trying to catch up with this, would it not?

Hon. Mr. ILSLEY: I would think so, yes.

Mr. FRASER (*Northumberland, Ont.*): Then, as Mr. Hanson said, if they are all in the excess profit tax, you create an impossible position, the same as we create in some other matters.

Hon. Mr. HANSON: Hear, hear!

Hon. Mr. ILSLEY: Yes. Would the committee be interested in what the Federal Deposit Insurance Corporation of the United States said in its annual report of 1942 about the appropriation or setting aside of reserves which would be regarded as operating expenses so far as taxes are concerned?

Hon. Mr. HANSON: I would.

Some Hon. MEMBERS: Yes.

Mr. GRAHAM: Put it on the record, please.

Mr. JACKMAN: Yes, put it on the record.

Hon. Mr. ILSLEY: This is the government corporation which insures deposits in the United States.

Mr. SLAGHT: Do they hide it there?

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: They hide it?

Hon. Mr. ILSLEY: Yes.

Mr. MACDONALD (*Brantford*): Proceed, please.

Hon. Mr. ILSLEY: This is the government corporation in the United States which insures deposits of American banks. It makes the recommendation for the setting aside of reserves by banks in spite of the fact that bank deposits in most United States banks are guaranteed or insured by the corporation itself.

After referring to the fact that during the twenty-five years 1918-42 inclusive, more than one-half of the losses of \$15 billion incurred by United States commercial banks on loans and securities other than United States government securities were incurred in six years out of the twenty-five, the report goes on to state:—

This uneven rate of loss contributes to banking difficulties. In prosperous periods profits appear to be large, encouraging payment of generous dividends, whereas in depression years the heavy charge-offs more than absorb undivided profits and sometimes even result in capital impairment. It is desirable, therefore, that during prosperous periods each bank should make provision on a systematic basis for losses, which can be expected to develop in periods of readjustment, on assets acquired during prosperous periods. Where banks do not follow such a practice, reserves for losses should be set aside annually in the form of valuation allowances, or unlimited charge-offs, or in some other manner, against those groups of assets from which losses ordinarily arise. Such reserves should, of course, not be regarded as a part of the capital accounts;—that is to say, should not be treated as a part of shareholders' equity.

The report goes on to say:—

Within certain limits the amount of reserves of the loss allowances set aside annually at a rate in keeping with the experience of the bank over a reasonable period of years or with the experience of a comparable group of banks, and with due regard for sub-standard assets, may be deducted from income in determining net income for federal tax purposes by banks employing the reserve method of charging off bad debts. Such deductions may be claimed even though losses have not actually been

ascertained during the taxable year. The requirements of the supervisory authorities, subject to certain limitations, also constitute sufficient ground for the taking of losses for income tax purposes.

If there may be a concentration of losses in certain periods, which has been the experience of banks in all countries I think—certainly in this country and in the United States—it is most proper that in the prosperous periods reserves be set aside which will take care of the losses in the less prosperous periods and that they be regarded as reserves against bad debts which are allowed in ordinary business. If Mr. Slaght's amendment were to carry, it would deny completely the right of these institutions only in this country to make a reserve which would be regarded as an operating expense so far as taxation is concerned in the year in which the reserve is set aside. There is not a special reason for doing that in the case of banks. There is less reason for doing that in the case of banks than there is for other commercial institutions in the country, because of the great importance of keeping the bank in such a position at all times that it does not pay out too great dividends, that it has reserves there in case of demand on deposits. It is the safety factor. There is less reason for doing it.

Mr. FRASER (*Northumberland, Ont.*): In that statement you have made, Mr. Minister, the quotation you have given to the committee seems to me particularly emphasizes the fact, contrary to the amendment to the amendment as set out by Mr. Slaght, that the very nature of the banking business is such that the banks trail along after the difficulties of commercial companies.

Hon. Mr. ILSLEY: Yes.

Mr. FRASER (*Northumberland, Ont.*): A commercial company, for instance, owing a bank might get into trouble in 1943 and it might not affect the assets of the bank until 1944 or 1945. I think that is brought out in that statement of yours.

Hon. Mr. ILSLEY: Yes.

Mr. FRASER (*Northumberland, Ont.*): So that it only emphasizes and emphatically sets out the necessity of not charging your taxes year by year, but making sure that your inner reserves are sufficient to take care of the trailing of industrial or commercial disasters in which the bank may be interested.

Hon. Mr. ILSLEY: Yes.

Hon. Mr. HANSON: That is a complete answer, I think, to the amendment.

Mr. NOSEWORTHY: Mr. Chairman, the minister indicated that it would not be feasible to give the information that I suggested might be given. Is it possible for him to tell us or to give us just what would have been the effect of taxing the inner reserves in 1943 in the aggregate in all the banks, without revealing the rates or without revealing individual amounts?

Hon. Mr. ILSLEY: What would have been the effect?

Mr. NOSEWORTHY: What would have been the effect if Mr. Slaght's amendment had been applied to the reserves of all the banks for 1943?

Hon. Mr. HANSON: If this amendment had been put into effect, how would it have affected the inner reserves?

Mr. JACKMAN: They would be in E.P.T.

Hon. Mr. HANSON: They are all in excess profits.

Mr. NOSEWORTHY: There is an "if" there.

Hon. Mr. ILSLEY: If it is assumed that they were all subject to 100 per cent—

Mr. NOSEWORTHY: There is an "if" there. Should not this committee be given information as to just what the effect would be?

Hon. Mr. ILSLEY: If we are assuming they were all subject to 100 per cent tax, if I gave the tax losses to the government and the tax gain to the banks, it would be stating just what the appropriation to inner reserves was in 1943.

Mr. FRASER (*Northumberland, Ont.*): On 100 per cent. There is always 40 per cent.

Mr. MACDONALD (*Brantford*): May I ask this question? We will go back to 1933 or 1934. In those years there were great losses sustained by the banks, I understand?

Hon. Mr. ILSLEY: Yes.

Mr. MACDONALD (*Brantford*): Am I right in saying that when those reserves are taxed, they are reduced by the amount of the taxes?

Mr. FRASER (*Northumberland, Ont.*): If they were.

Mr. MACDONALD (*Brantford*): If the reserves were taxed they would then be reduced by the amount of that tax. If in 1933 these reserves had been taxed would the bank have been in a position to meet its liabilities?

Hon. Mr. ILSLEY: I do not know about that. The tax rates were not very high then.

Mr. NOSEWORTHY: Not if they paid the same dividends, but if they had paid lower dividends—

Mr. McGEER: Some of them were paying a 16 per cent dividend.

Mr. TOMPKINS: That is a fantastic figure. That does not express it in the proper terms.

Mr. MACDONALD (*Brantford*): In any event, in 1933 the amount of the reserve would have been reduced by the amount of tax which was then in effect.

Hon. Mr. ILSLEY: Yes.

Mr. MACDONALD (*Brantford*): Now then—

Hon. Mr. ILSLEY: Let me see if I understand the question. I think you are just stating the obvious, are you not?

Mr. MACDONALD (*Brantford*): Yes, that is correct. Now, I come to 1943. If we follow Mr. Slaght's suggestion this reserve will be taxed immediately by 40 per cent.

Hon. Mr. ILSLEY: Either that or 100 per cent.

Mr. MACDONALD (*Brantford*): That is the minimum amount, so instead of being at their present figure they would only be 60 per cent of that amount.

Mr. SLAGHT: Not on what they have pulled out during the years; I am only speaking about the policy for the future.

Hon. Mr. ILSLEY: I think that is right. I have been looking at the amendment and apparently it does not relate to the present inner reserves at all.

Mr. SLAGHT: No, and it is not retroactive.

Hon. Mr. ILSLEY: It just relates to future appropriations, perhaps 1944; I do not know.

Mr. MACDONALD (*Brantford*): Then, am I correct in saying if the appropriations they have made now are necessary they will be taken up by the losses? They will have to provide for the losses?

Hon. Mr. ILSLEY: Yes.

Mr. MACDONALD (*Brantford*): So that in the future they would either have to appropriate a very very much larger amount in order to meet possible losses or else they will not have the money with which to meet them.

Hon. Mr. ILSLEY: For the banks in the 100 per cent class it would be impossible for them to make any reserves against losses, it seems to me.

Mr. MACDONALD (*Brantford*): I think that is correct, that if Mr. Slaght's suggestion carries in the future the banks will not have a reserve with which to meet possible losses and that our whole banking system will therefore be weakened. I will go further and say that in my opinion that if we do unfortunately run into conditions such as existed in 1933 and 1934 the banks would not be

able to stand up against the great strain that would be put upon their financial structure. The reserve would not be there.

Hon. Mr. ILSLEY: I have another objection to Mr. Slaght's amendment. It is this: that if there were not the 100 per cent rate, if it were merely a 40 per cent rate, and a larger appropriation was made to inner reserves, in view of the fact that \$40 out of every \$100 had to be deducted, his suggestion is that be published, and that when losses come they be reflected in the reduction in the published reserves. I think it is very bad and dangerous to have big fluctuations in those published reserves.

Mr. McGEER: Mr. Chairman, I was just going to ask Mr. Tompkins if we can have that breakdown on the taxes along the line suggested for to-morrow?

Mr. TOMPKINS: I hope so.

Mr. McGEER: In connection with the excess profits tax do not the banks show whether they are in the excess profits tax in their annual statements?

Mr. TOMPKINS: If the members of the committee will refer to the latest annual statements of the banks they will see immediately the particular banks which are in that category because they show in their published statements the amount of refundable taxes in all cases where they are subject to the excess profits tax. Speaking entirely from memory I think the refundable portion of taxes last year was something like 900-odd thousand dollars but I will have that exact figure, too.

Mr. McGEER: I take it they are shown in this portion of the statement of the assets of the Canadian Bank of Commerce on page 5 where it says:—

Other assets not included under the foregoing heads (but including refundable portion of dominion government taxes amounting to \$168,525.27).

Mr. TOMPKINS: That is correct. That \$168,525.27 is not entirely for 1943.

Mr. McGEER: At that date there was that.

Mr. McGEER: So that it shows that bank was in the excess profits class?

Mr. TOMPKINS: That is quite correct.

Mr. McGEER: And the statement of the Bank of Nova Scotia is the same, "Other assets not included under the foregoing heads (but including refundable portion of dominion government taxes amounting to \$205,752.89)."

Mr. TOMPKINS: That is correct.

Mr. McGEER: And the Dominion Bank, one of the smaller banks?

Mr. TOMPKINS: Not so small.

Mr. McGEER: I beg your pardon?

Mr. TOMPKINS: Not so small.

Mr. McGEER: Well, it is not one of the big three. Its statement says, "Other assets not included under the foregoing heads (but including refundable portion of dominion government taxes, \$15,857.73)." In view of the statements of the minister, do you think that the banks should be submitted to this excess profit tax?

Mr. MACDONALD (*Brantford*): Now we have special privilege.

Some Hon. MEMBERS: Oh, oh!

The CHAIRMAN: It was not a fair question.

Mr. TOMPKINS: I do not know what I am supposed to answer to a question like that.

The CHAIRMAN: It was not a fair question.

Mr. McGEER: I should like to get your view.

Hon. Mr. HANSON: It is a matter of policy.

Mr. TOMPKINS: I think that is a matter of government policy.

Mr. FRASER (*Northumberland*): It is the law.

Hon. Mr. ILSLEY: It is the law of the land.

Mr. McGEER: There is one other statement I should like you to explain for me. I go again to page 136 and I take item No. 13, "Net amounts of current operating earnings available for losses on loans, investments and other assets and for other contingencies"; the average for fifteen years was 12·8 million.

Mr. TOMPKINS: But that is not item 13 you are talking about now. You are going to item 15, are you not?

Mr. McGEER: No, item 13. The net amount of current operating earnings available for losses on loans, investments and other assets and for other contingencies, the average of the 15 years, was 12·8 million and for 1943, 20 million. I mean, could you give me an explanation of what that means?

Mr. TOMPKINS: Well, that is what is left over after taking care of ordinary operating expenses and dividends.

Mr. McGEER: Yes?

Mr. TOMPKINS: And the experience of the banks is this—

Mr. McGEER: And taxes?

Mr. TOMPKINS: And taxes, of course. That is part of operating expenses.

Mr. McGEER: Yes?

Mr. TOMPKINS: But the actual experience with respect to losses; they are covered in item 15 as an average figure for the fifteen years.

Mr. McGEER: Yes?

Mr. TOMPKINS: That is 13·8 million for the fifteen-year average.

Mr. McGEER: Yes?

Mr. TOMPKINS: I think I explained on a previous occasion that that is the only fair way of expressing losses for the very reason that it is extremely difficult to arrive precisely at your actual losses in each year. It has often been said that banks make their bad loans in good times and do not find that they are bad or doubtful until some later stage.

Mr. McGEER: What I want to draw your attention to is this. For the average of fifteen years there was available 12·8 million.

Mr. TOMPKINS: That is before losses.

Mr. CLEAVER: Plus 2·5 million.

Mr. TOMPKINS: Plus 2·5 million from capital earnings.

Mr. McGEER: The actual amount required is in item 15?

Mr. TOMPKINS: Yes.

Mr. McGEER: And it was what?

Mr. TOMPKINS: 13·8 million.

Mr. McGEER: 13·8 million?

Mr. TOMPKINS: That is correct.

Mr. McGEER: In other words, it was a million more, on the average—

Mr. TOMPKINS: About one and a half million more, on the average.

Mr. McGEER: —than was required?

Mr. TOMPKINS: That was covered entirely by the minister's statement.

Mr. CLEAVER: Mr. Tompkins, should you not add to your 12·8 million the following item of 2·5 million?

Mr. TOMPKINS: Quite so.

Mr. McGEER: That does not make any difference with regard to the point I am making.

Mr. FRASER (*Northumberland, Ont.*): It is 1 o'clock.

Mr. McGEER: The amount available and the amount required on the fifteen-year average shows more required than was available.

Mr. TOMPKINS: No, no, not if you add items 13 and 14 together.

Mr. CLEAVER: That is what I suggested, add 2.5 and that brings you up to 15.3.

Mr. TOMPKINS:: 13 and 14 added together make 15.3 millions from which you deduct 13.8 millions as expressed in item No. 15, leaving a surplus on the average basis of a million and a half. That surplus was dealt with fully in the minister's statement before the committee some time ago.

Mr. McGEER: Take the year 1943. You have \$22,000,000 available and only \$13,800,000 required.

Mr. TOMPKINS: That 13.8, as I say, is expressed in terms of the average experience over fifteen years. It does not apply to the year 1943 alone.

Mr. McGEER: You have taken that from the fifteen-year average and put it in 1943.

Mr. TOMPKINS: Quite so, because the average includes 1943 here.

Mr. McGEER: The point I am trying to make is that the average figure for the fifteen previous years may have no real application to the actual requirements of 1943.

Mr. TOMPKINS:: That may be true. We may not know the actual requirements of 1943 until 1945, 1948 or 1950, let us say.

Mr. McGEER: So you have taken an average figure?

Mr. TOMPKINS: We have taken an average as expressing in our opinion the best way of indicating the experience.

The CHAIRMAN: Is it the pleasure of the committee to vote on the amendment to the amendment?

Mr. NOSEWORTHY: I think we should have the tax statement.

The CHAIRMAN: Very well; is it the pleasure of the committee to meet this afternoon at 4 o'clock?

Some hon. MEMBERS: Yes.

The CHAIRMAN: The committee meets at 4 o'clock this afternoon.

The committee adjourned at 1.05 o'clock, p.m., to meet again this afternoon at 4 o'clock, p.m.

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Is the committee ready to vote on the amendment to the amendment?

Mr. McNEVIN: Question.

Mr. GRAHAM: Question.

The CHAIRMAN: The amendment moved by Mr. Slaght to the amendment proposed by the Minister of Finance to section 56—

Mr. NOSEWORTHY: Can we have the amendment to the amendment read?

The CHAIRMAN: The clerk will read the amendment.

The CLERK:—

That the bank may continue as heretofore to treat as operating expenses, and deduct from gross earnings, the actual losses incurred by the bank during its fiscal year, but hereafter shall, with respect to any sum or sums set aside or reserved out of income for future possible losses which may or may not ever be incurred—whether the same are set aside or reserved, either by way of write-down of the value of assets, or by appropriation to any contingency or inner reserve or contingent or inner account for the purpose of meeting future losses on loans or doubtful debts, or depreciation in the value of assets, other than bank premises, or for any other future contingencies which may or may not occur—be required to pay taxes thereon in the fiscal year in which the earnings from which such sum or sums accrue.

The CHAIRMAN: All those in favour of the amendment to the amendment please say aye. All those opposed please say nay. I declare that the nays have it. Are we ready to vote on Mr. Ilsley's amendment?

Mr. SLAGHT: Mr. Chairman, before we vote on the amendment I have no further amendment to move but I want to call the attention of the minister and of Mr. Graham, who formally moved the amendment, to a fact. While my attitude is the amendment is a step in advance, in the right direction, I think it lacks the teeth that the movers or creators of it thought it had. I make this suggestion, that the committee look at this pamphlet given us to-day in which the amendment is printed on the first page, and after we come down to "where in the opinion of the minister an amount set aside"—and I skip—"is in excess having regard to all the circumstances the minister shall notify the Minister of National Revenue and the Deputy Minister of National Revenue (taxation) of the amount so set aside and of the amount of such excess". Then from there on it puts in an exception, but stopping at the word "excess" the only thing that the section does, as I read it, is it gives one minister the right to tell another minister what he thinks about the amount as an excess.

Mr. GRAHAM: It is a little more than that. It imposes a duty on the Minister of Finance.

Mr. SLAGHT: It is his duty to tell the Minister of National Revenue, and when he is done telling and when the other man is done listening this section does not say what shall happen. My suggestion is—and it is a friendly suggestion—that what you really want to do there is add this sentence after the word "excess", "and the Minister of National Revenue shall thereupon be empowered to compel such bank to pay all proper taxes upon such excess". That puts teeth in it to make it workable. First the Minister of Finance decides there is an excess and then he tells his colleague there is an excess. In my view we should give power to the Minister of National Revenue to say to the bank, "You must pay taxes on that".

The CHAIRMAN: Mr. Slaght, you are not suggesting that the Minister of National Revenue has not power?

Mr. SLAGHT: Yes, I do.

The CHAIRMAN: Why not?

Mr. SLAGHT: Where is his power?

Mr. GRAHAM: I would point this out to Mr. Slaght that, as has often been stated here by the Minister of Finance, the deputy minister and by Mr. Tompkins, the determination of what is a proper reserve for the purpose under consideration is after all a matter of almost expert opinion. If you will notice the wording of this particular amendment I may say that I was pleased this was in there because I checked for it, that "where in the opinion of the minister"

—that is the Minister of Finance. He is only forming an opinion from the facts given to him. Then he is under a statutory duty if this amendment is passed to notify the Minister of National Revenue and the Deputy Minister of National Revenue that in his opinion on the facts he has the reserve seems to be in excess of what appears to be right under all the circumstances. Then, of course, the Minister of National Revenue and the Deputy Minister of National Revenue are under a statutory duty to make a thorough examination, and if it is subject to taxation after that department has considered it then they impose the taxation that the law imposes on any type of income.

Mr. GRAY: Is that quite right? Do you think that, the Minister of Finance having said how much it is in excess, it is still left to the opinion of the Minister of National Revenue whether it is excessive?

Mr. GRAHAM: It is his duty in all cases, in the case of every taxpayer.

The CHAIRMAN: Just a minute; let us hear from the Deputy Minister of Finance. He has a statement to make bearing on that point.

Mr. GRAY: It does seem strange to me. Up to this time the Minister of National Revenue has never even heard of it.

Mr. SLAGHT: That is the evidence.

Dr. CLARK: First of all on Mr. Slaght's point I think there is no doubt that the Minister of National Revenue has full power under the Income War Tax Act to tax the amount of this reserve that is in excess. Section 6 (d) of the Income War Tax Act reads as follows:—

In computing the amount of the profits or gains to be assessed a deduction shall not be allowed in respect of . . . (d) amounts transferred or credited to a reserve, contingent account, or sinking fund, except such amount for bad debts as the Minister may allow, and except as otherwise provided in the Act.

That means that the Minister of National Revenue must be satisfied that the amount being reserved by any corporation—by a bank or any other corporation—is reasonable. If he thinks they are not reasonable he can reduce them and tax them as he wills. In the case of banks, by arrangement between the Minister of National Revenue and the Minister of Finance, the Minister of National Revenue has not tried to duplicate the audit work being performed by and on behalf of the Minister of Finance. The Minister of Finance has the responsibility of supervising the Canadian banking system under the Bank Act, and the Minister of National Revenue has taken the opinion of the Minister of Finance as to what is a reasonable reserve for bad debts to be maintained by the banks. I think that under Mr. Ilsley's proposed amendment, the intention is that the Minister of Finance would continue to do what he has done in the past. If he finds in any case the allocations to inner reserves are larger than appears to him to be necessary he will notify the Minister of National Revenue and the Deputy Minister of National Revenue (Taxation), not only that the amounts being allocated are too high but also the amount that is in excess, in his opinion. The Minister of National Revenue would act on that, impose tax on that excess amount. I do not think it is intended that the Minister of National Revenue shall go and do over again all the work that the Minister of Finance is doing. It is perfectly open to him to do so if he wills.

The CHAIRMAN: He has the power?

Dr. CLARK: He has the power.

Mr. GRAHAM: It is his duty.

The CHAIRMAN: If he is not satisfied it is his duty.

Mr. GRAY: If I have understood this debate the inner reserves were only reported to a certain very limited number of people and the Minister of National Revenue certainly was not included in that group.

Dr. CLARK: He could always have got the facts if he wanted to.

Mr. GRAY: That may be, but it was certainly in evidence he never asked for it.

Mr. SLAGHT: Quite right.

Mr. GRAY: I agree with Mr. Slaght that if this is to mean anything then surely if there is going to be a duplication of opinions as to what is an excess or what is not we will be back pretty well into what we are at the present time, but if it is a statutory direction, as Mr. Slaght suggested, if it is accepted by the Minister of National Revenue in my opinion that is the amount in excess and therefore taxable. If you are just going to go around in circles again, I do not think that this amendment is much good.

The CHAIRMAN: Shall the amendment carry?

Mr. MACDONALD (*Brantford City*): Mr. Chairman, I should like to ask Dr. Clark who determines whether or not this is a reasonable amount.

Dr. CLARK: The Minister of Finance, on the basis of the report of the Inspector General of Banks, the shareholders' auditors and such other advice as he cares to take.

Mr. MACDONALD (*Brantford City*): Of the shareholders' auditors?

Dr. CLARK: Yes.

Mr. MACDONALD (*Brantford City*): The shareholders' auditors' opinion is given, is it?

Dr. CLARK: Yes. The report of the shareholders' auditors is made available to the Minister of Finance.

Mr. MACDONALD (*Brantford City*): When it was decided that three banks had an excessive amount, did the shareholders' auditors state that the amount was excessive?

The CHAIRMAN: They stated the amount.

Dr. CLARK: No. That was the judgment reached by the Minister of Finance after consultation with the Governor of the Bank of Canada, the Inspector General of Banks and myself.

Mr. MACDONALD (*Brantford City*): At the first of the year, as was brought out here the other day, it was considered that the amount which the banks had set aside was not excessive. Is that not correct?

Dr. CLARK: At the first of which?

Mr. MACDONALD (*Brantford City*): At the first of this year.

Dr. CLARK: The minister had not had a chance, as he explained, to go over the reserve allocation, the inner reserves of the banks, as of the end of last year. He had not had a chance to do that. He did it in May, just before he made his statement.

Mr. MACDONALD (*Brantford City*): When he made his statement in the house, there was no suggestion that the amount was in excess of what was considered reasonable.

Dr. CLARK: There was no such suggestion, no.

Mr. MACDONALD (*Brantford*): There is a suggestion now that it is considered excessive.

Dr. CLARK: Yes.

Mr. MACDONALD (*Brantford*): How many days did it take the minister and his advisers to come to that conclusion?

Dr. CLARK: Oh, a matter of a couple of weeks.

Mr. MACDONALD (*Brantford*): If I remember correctly, the minister was sitting in the house and before this committee most of that time.

The CHAIRMAN: I think, Mr. Macdonald, the minister explained that he had not had the opportunity to take up that matter as soon as he would have desired to do so.

Mr. MACDONALD (*Brantford*): I quite appreciate that, Mr. Chairman. My point is that I think some one came to a conclusion in a very, very short time that some reserves were excessive. Another point I wish to make is that, in my opinion, it would take supervision throughout the whole year in order to determine what amount would be suitable.

Mr. GRAHAM: Hear, hear! And it is the Department of National Revenue who should do that.

Mr. MACDONALD (*Brantford*): I do not know who should do it, but I do not think a few officials, brilliant as they may be, and brilliant as the present Minister of Finance may be, can decide in a few hours that the amount set aside is excessive. I think this is the business of practical bankers. I think we are getting on very dangerous ground if, after a few hours' cursory examination of a statement, we come to the conclusion that these reserves are excessive.

Mr. SLAGHT: I can give you the date, Mr. Macdonald. It was May 25 when the minister asked the committee to pause while he considered the matter. It was June 6, twelve days later, that he made the statement; and during those twelve days he had a conference with officials.

Dr. CLARK: He had been working on it before that.

Mr. MACDONALD (*Brantford*): During those twelve days I recall very clearly that the minister was very busy considering other matters. He certainly could not give his undivided attention to arriving at what would be a reasonable amount. Suppose it turned out that the amount set aside is not sufficient; and again I say brilliant as the minister is, he has not had the experience of bankers, and I think it is a job for experienced bankers. In years to come we may not have the benefit of having such an outstanding Minister of Finance. Suppose then the amount turned out not to be sufficient. To whom are the depositors to look? Are they to look to the government or are they to look to the bank?

Mr. SLAGHT: The Minister of National Revenue, to whom they have paid their taxes.

Mr. MACDONALD (*Brantford*): That is the point. If the government is prepared to come forward and say, "Here, we made a mistake and asked you to cut down. We should not have done so, and we will make up for the losses", that is an innovation.

Mr. GRAHAM: No. May I point out to Mr. Macdonald that the amendment protects that. It does not disturb the banks from setting aside what they consider necessary to protect the position of the banks. This too is an important point in this amendment. The Minister of Finance is not doing what Mr. Macdonald says, and I believe that is the value of this particular amendment. He simply passes it on for the attention of the appropriate minister, the Minister of National Revenue, who must in all cases make a determination as to what is excessive or what is reasonable; and it was only after that department, with its experts, who must do the job—which, as Mr. Macdonald says, is difficult—have done it that taxation is applied. So that I am very much in favour of the wording of the amendment as it stands for the very reasons Mr. Macdonald has given.

Dr. CLARK: I meant to point out, Mr. Macdonald, that the concluding three or four lines of the amendment read as follows, "but nothing in this subsection shall be construed to give the minister any jurisdiction over the discretion of the directors of the bank with regard to amounts set aside, reserved or transferred to any reserve or other fund from income upon which taxes have been assessed under the Income War Tax Act or the Excess Profits Tax Act, 1940".

Mr. MACDONALD (*Brantford*): That is all very well, Dr. Clark; and as Mr. Graham says, they do not have to change their reserves. All the Department of Income Tax does is take the taxes. If they take the taxes, they take 100 per cent as it stands to-day.

Dr. CLARK: As it stands to-day.

Mr. MACDONALD (*Brantford*): Yes. They take 100 per cent; and the reserve to that extent is cut down?

Dr. CLARK: That is right.

Mr. MACDONALD (*Brantford*): I do not think we can get away from that, Mr. Graham. The amount of the reserve would be reduced. My point is that I think it is very dangerous indeed to have the government step in and tell these practical bankers who, in the past, have assumed all this responsibility, "We know more about your business than you do, and you have to reduce it." The other point I was going to make was this. I hope I have made myself clear there.

Mr. NOSEWORTHY: Why put the government inspector in there if you are going to leave everything to the banks?

Mr. MACDONALD (*Brantford*): I do not believe in leaving everything to the banks. I never suggested leaving everything to the banks, but I do not think the government should have the power they have. The other point was raised by Mr. McGeer. Mr. McGeer said, "Suppose these reserves are not sufficient"? What about that? Has that been decided? Is there any power in the government to tell the banks that they have to increase their reserves?

Mr. McGEER: None whatever.

Dr. CLARK: There is not only power but an obligation in the Bank Act to see that the assets of the bank are valued on a sound basis, on a true basis; that they are neither over-valued nor under-valued. That power is in those sections dealing with monthly and annual returns that have to be submitted by the banks.

Mr. MACDONALD (*Brantford*): Yes. Then do you say that under this section the Minister of Finance could tell these practical bankers, "You have not got sufficient reserves and you must bring them up"?

Dr. CLARK: Yes, he could; and under other sections he could.

Mr. MACDONALD (*Brantford*): Under which section?

Mr. McGEER: This amendment expressly prohibits that, does it not?

Mr. GRAHAM: No.

Dr. CLARK: No.

Mr. McGEER: It says the minister has no power to interfere with the discretion of the directors as to the amount set aside.

Mr. SLAGHT: Oh, no. That is in the disclosed reserve.

Dr. CLARK: The amount set aside in the disclosed reserve.

Mr. SLAGHT: All this section does is to tell the Minister of Finance that it is his duty to go and talk into the ear of the Minister of National Revenue; and then it stops right there.

Mr. GRAHAM: No, it does not.

Mr. SLAGHT: It does not give the Minister of National Revenue any power, unless Dr. Clark is right, and I am in doubt about that. You will excuse me for interrupting, Mr. Macdonald?

Mr. MACDONALD (*Brantford*): Yes.

Mr. SLAGHT: You will recall, Dr. Clark, there has been no obligation on the banks to give any information about inner reserves to the Minister of National Revenue.

Dr. CLARK: Because the Minister of National Revenue could have had it any time he wanted it.

Mr. SLAGHT: We are told that every time, that he could have had something.

Dr. CLARK: Yes.

Mr. SLAGHT: But the ordinary taxpayer is under obligation to disclose to the Minister of National Revenue what he is going to put aside in a reserve.

Dr. CLARK: In the way which the Minister of National Revenue may decide.

Mr. SLAGHT: Right. But the banks heretofore have not been under obligation to tell the man who does the taxing, the Minister of National Revenue. We are not saying even here that the banks are under obligation to make that disclosure to the Minister of National Revenue. We are going around the garden wall and saying that the Minister of Finance, to whom the banks have always been under obligation to tell, now must go and tell the Minister of National Revenue. We do not say to the Minister of National Revenue that the banks, who have been in a class by themselves heretofore, are to be like any other taxpayer, and he is to have the right to impose taxes on that excess which he learns about. You may be right, that that subsection is broad enough. Why don't you make it clear beyond any peradventure that when the Minister of National Revenue receives that report from the Minister of Finance that he has the power, on the basis of that information, to make them pay taxes on the excess.

Dr. CLARK: I would think that there would be no reason in the world for that. It would not be good drafting to repeat in another statute dealing with banks the tax obligation that you have in the Income War Tax Act. I think that tax obligation is clear beyond peradventure; and the only reason that the Minister of National Revenue has not made direct arrangements to find out for himself about the inner reserves of the banks is that another minister of the government under an Act of Parliament was responsible for the supervision of the banking system and to see that the banks were maintained in a sound condition, and by arrangement with that minister he said, "I will take your judgment as to whether these reserves are adequate or are not adequate." Now here in this new amendment you are merely putting a legal obligation on the Minister of Finance to do that which you will agree is a moral obligation in any event.

Mr. GRAY: That is all we want.

Dr. CLARK: To tell the Minister of National Revenue what his opinion is as to the amount of any excess reserve allocation that has been made by a particular bank.

Mr. SLAGHT: Yes; but, Dr. Clark, I think Mr. Macdonald agrees that there is a principle of law that where a special act sets up obligations on a taxpayer that overrides the previous general act unless it is excepted. Now, the special act up to this moment—

Dr. CLARK: You mean by the "special" act which act?

Mr. SLAGHT: I mean the Bank Act, with which we are dealing; under that the banks have not been under any obligation to tell the minister of taxation what they are setting aside to escape taxation; not having been under that obligation but having been under the obligation to tell the Minister of Finance. Now, we are making a step forward in the amendment as it reads, and we are saying to the Minister of Finance from here on he must tell the Minister of National Revenue what the excess is in his opinion; and when we so tell him we quit. Why don't we say to the Minister of National Revenue who for the first time is empowered to be told by anybody—

he has not yet even been told by the taxpayer—when there is an excess. Just add these few words: and the Minister of National Revenue shall thereupon be empowered—I am not saying he must—thereupon be empowered to compel such banks to pay all proper taxes upon such excess. What is the harm in making that clear?

Dr. CLARK: I think you are under a misapprehension. I think sect. 6 (d) of the Income War Tax Act gives the Minister of National Revenue all the power in respect to banks that he has in respect to any other corporation or any other business. I think that is clear beyond any doubt.

Mr. McNEVIN: I would just like to make this observation, there is not a department of the government that I have so much confidence in, as the ability of the Income Tax Department. They look after it all.

The CHAIRMAN: Hear, hear.

Mr. MACDONALD (*Brantford City*): With reference to this section towards the end, about five lines from the end; "but nothing in this subsection shall be construed to give the minister any jurisdiction over the discretions of the directors of the bank with regard to an amount set aside, reserved, or transferred to any reserve or other fund from income upon which taxes have been assessed under the Income War Tax Act or the Excess Profits Tax Act of 1940. That has nothing to do with inner reserves?

Dr. CLARK: No.

Mr. MACDONALD: That refers to the reserves which they set up and disclose?

Dr. CLARK: Yes. It is just a statement that this amendment will not relieve the directors of the bank from building up reserves that are adequate to take care of business difficulties.

Mr. MACDONALD: But if the banks had not disclosed reserves and paid dividends on the reserves—

Dr. CLARK: It is taxed.

Mr. MACDONALD: This section does not vary the procedure in any way whatsoever?

Dr. CLARK: No.

Mr. MACDONALD: So then the bank could pay whatever dividend it wanted to and this section could not prevent it from doing so although it could prevent the bank from keeping too large an amount in the inner reserve?

Dr. CLARK: That is right.

Mr. MACDONALD: And you say there is another section of the Bank Act whereby the government, or the Minister of Finance can require the banks to bring up their inner reserves?

Dr. CLARK: I think all the sections dealing with monthly and annual returns, provide for a true valuation of assets and provide for certificates that all statements are a true reflection of the condition of the bank.

Mr. MACDONALD: Well then I will not deal any longer with that, if you give me that assurance. I am not very clear on it myself. I hope other members of the committee are more clear on it than I am. I am very definitely of the opinion, Mr. Chairman, that this is a very dangerous procedure; for the Minister of Finance to step into a bank and tell practical bankers, you do not know your business as well as I do, you have too large a reserve.

The CHAIRMAN: Shall the amendment carry?

Hon. Mr. HANSON: I would like to ask Mr. Clark a question about that amendment: is it the intention of this amendment that the Minister of National Revenue shall act on the information of the Minister of Finance; or is it the intention that the Minister of National Revenue shall make his own investigations after he receives the opinion of the Minister of Finance?

Dr. CLARK: I think the intention is that the Minister of National Revenue shall act on the basis of the information and opinions given and expressed to him by the Minister of Finance; but there is nothing here which restricts the right of the Minister of National Revenue to make such investigation as he wishes to make.

Hon. Mr. HANSON: Oh yes, I didn't think the section went that far.

Mr. HAZEN: That is not clear at all. There is no directive in this

Dr. CLARK: There is no directive in this at all.

Hon. Mr. HANSON: There is a directive to the national department of taxation, or is it merely a suggestion?

Mr. GRAHAM: It is a notice of opinion.

Hon. Mr. HANSON: That is what it is in my view, a notice of opinion, and it has no legal effect except the moral effect that the opinion of the Minister of Finance might have on the Minister of National Revenue; but if Dr. Clark's view is right it is in effect mandatory and obligatory on the Minister of National Revenue. That being the case then, of course, I think it ought to be passed. You might have two choices here. The taxation department is not an independent department. All the Minister of Finance has to do is to throw out a red light signal. I do not like this amendment. I have not liked it from the very beginning. It either does not go far enough or it ought to be dropped. And I am not sure that I am going to vote for this amendment.

Mr. GRAHAM: I would ask Dr. Clark this; I don't think Dr. Clark meant that this amendment imposes on the Minister of National Revenue the duty of accepting the opinion of the Minister of Finance.

Dr. CLARK: I thought I made that very clear.

Mr. GRAHAM: I think the way it would work out in actual practice would be that the Minister of National Revenue would do as he has done in the past, accept the judgment of the Minister of Finance. "

Dr. CLARK: Quite so.

Mr. BREITHAUP: The whole matter seems hinged on the point raised by Mr. Clark and the Income War Tax Act. If he has that clause there and if it is read it might be a matter of an amendment of that clause.

Dr. CLARK: Section 6(d) of the Income War Tax Act reads as follows, Mr. Breithaupt: "In computing the amount of profits or gains to be assessed a deduction shall not be allowed. . . . (d) in respect of amounts transferred or credited to a reserve, contingent account or sinking fund, except such amount for bad debts as the Minister may allow, and except as otherwise provided in this Act. The fundamental words are, "Except such amount for bad debts as the Minister may allow." He is given the obligation and the power to investigate the amount set aside by any business for a bad debts reserve. He can take his own way of finding out, or of reaching his judgment as to whether a particular reserve for bad debts set up by a business is excessive or unreasonable. In the case of banks he has, by arrangement, depended in the past on the Minister of Finance because he knows the Minister of Finance has been given a responsibility for supervision of the banking system by the Bank Act.

Hon. Mr. HANSON: Not in connection with taxation.

Dr. CLARK: Not in connection with taxation, no.

Mr. SLAGHT: Have you finished with your observation, Dr. Clark?

Dr. CLARK: I think I am through.

Mr. SLAGHT: Is there any other business or type of business except the banks, if you put this through without more teeth in it than it has, that has a chance to interpose a possibly friendly Minister of Finance—and I am not referring

to our present minister—between them and the taxation authorities when all other businesses have to disclose direct to the taxing authority what they propose to set aside for exemption from taxes? Here we are setting up a back door way. Why should the Minister of Finance and all his advisers spend perhaps two or three or more weeks determining a matter that they have no power to deal with except to whisper it into the ear of the Minister of National Revenue?

Hon. Mr. HANSON: I agree with that.

Mr. SLAGHT: If that be so we are just having a nice little ring around the rosie in this amending section. It is better than it was before but why do the banks not have to bow their heads to direct supervision and report directly to the Minister of Taxation and let him tax the banks like he taxes every other business in Canada?

Hon. Mr. HANSON: Is that not the situation under the law to-day?

Mr. SLAGHT: No. You heard in evidence that the banks do not disclose to-day to the Minister of Taxation the amount of their inner reserves at all, never have.

Hon. Mr. HANSON: Is not the power there?

Mr. SLAGHT: Power to what?

Hon. Mr. HANSON: To make them disclose.

Mr. SLAGHT: What good is that when for nineteen years it has not been exercised?

Hon. Mr. HANSON: We are talking about a matter of principle.

Mr. SLAGHT: I want to make it compulsory for them to disclose to the Minister of Taxation and then let him deal with them. Why should they have a buffer of a Minister of Finance who may look them over with a friendly eye—perfectly honestly, if you like, as two men can reach different conclusions—and he says, “Your inner reserves are all right, boys; I will not report you at all.” If he looks at them and finds they are all right then this section does not even make the banks tell the Minister of Taxation what they are. It only makes the Minister of Finance tell the Minister of Taxation what the inner reserves are if he thinks there is an excess.

Hon. Mr. HANSON: That is quite right.

Mr. SLAGHT: Let us get clear of that business and put the banks under an obligation to disclose to the taxing minister their inner reserves. The banks will not mind doing it if we tell them to. They will not object to that. They have got to deal with him in the last analysis even with the ring around the rosie way, but let us have it direct and be done with this back door business.

Hon. Mr. HANSON: What is the legal position to-day? Is it not within the jurisdiction of the taxation department to require, if they so decide, the amount of these hidden reserves?

Dr. CLARK: Absolutely.

Hon. Mr. HANSON: If you have got one jurisdiction why in the name of heaven do you want to impose a second jurisdiction that is not really effective, as the member for Parry Sound says? The member for Parry Sound said that the banks have never disclosed them to the taxation department. Have they ever been asked to disclose them?

Mr. SLAGHT: No.

Hon. Mr. HANSON: Then the fault lies in the taxation department, if fault there be, and I am not suggesting there is.

Mr. SLAGHT: The Bank Act encourages them not to report it as against the general law of taxation on ordinary businesses. I do not think there is any

reflection on the Department of National Revenue in the present situation, but there is a situation that we surely must try to cure.

Dr. CLARK: There is not any business in Canada or in the world that is subject to so much detailed control and consideration of its inner reserves, such examination, audit and supervision, as the Canadian banks. None of the businesses that have this clause administered by the Department of National Revenue are subject to anything like the same degree of supervision, detailed control, detailed analysis, that the banks are.

Mr. SLAGHT: Suppose you are right; what has that got to do with this point? Let me point out to you the picture disclosed to this committee. The very learned and honourable inspector of banks put his mind to this problem and told us two or three weeks ago, "In my opinion these reserves were all right for last year".

Mr. MACDONALD (*Brantford*): We have had that.

Mr. SLAGHT: And he believed it. This committee went into the matter of inner reserves and the minister said, "I want to look into that". In looking into the problem generally he bestirred himself and gathered you gentlemen around him to look into it and you say, "Well, two of the banks at least last year set aside an excessive amount."

Dr. CLARK: On the basis of hindsight.

Mr. SLAGHT: Hindsight or any other sight. You are talking about this close supervision of banks as against other businesses. The minister told us, and I quite understand it, that he should not have to bother with this at all. He said he had been very busy and perhaps his health was frail and up until this committee got going he had not had the time to look into this problem. That is not very active supervision of banks. If the banks had been made to report to the commissioner of taxation, as they ought to have been made, what they were hiding in inner reserves the commission of taxation would have read their report and could have said, "It is too much or too little". Then we would have had real supervision and not an interposed cushion which does not, as far as this year is concerned, supervise until a committee of parliament steps on it to the extent of goading it into an investigation. Let us have it direct.

Mr. MACDONALD (*Brantford*): May I get some information? Do I understand under the present National Revenue Act the Minister of National Revenue can inquire into the inner reserves of the banks?

Dr. CLARK: Absolutely.

Mr. MACDONALD (*Brantford*): Can the Minister of National Revenue then tax the banks in accordance with the discretion of the Minister of National Revenue as to whether or not these reserves are or are not in excess?

Dr. CLARK: Yes.

Mr. MACDONALD (*Brantford*): He has that power now?

Dr. CLARK: Yes.

Mr. MACDONALD (*Brantford*): Why do we add a similar clause to the Bank Act?

Mr. GRAY: We have got to judge it—

Mr. MACDONALD (*Brantford*): I just want to ask Dr. Clark and I will be satisfied with his answers. Why then, Dr. Clark, do we put a similar clause in the Bank Act?

Dr. CLARK: It is not a similar clause at all. The clause in the Income War Tax Act says, "Except such amount for bad debts as the Minister of National Revenue may allow". In the ordinary case he has to decide on his own, so to speak. He has to form some judgment as to what is a reasonable reserve for bad debts in the case of an ordinary business. He probably has to set up uni-

form but more or less rough percentages for various businesses to indicate reasonable reserves. He can do what he likes in regard to the banks. However, he has thought it wise—

Mr. MACDONALD (*Brantford*): Who has?

Dr. CLARK: The Minister of National Revenue has thought it wise—

Mr. SLAGHT: For nineteen years under all ministers.

The CHAIRMAN: Please.

Dr. CLARK: —that where another minister of the same government was responsible for the supervision of the banking system had his own inspector general of banks making a detailed audit of these banks, and having in mind the audits of the quasi-public officials, the shareholders' auditors, and so on, he has thought it wise to say: "The soundest way for me to determine what are fair reserves for banks is to rely on this work being done for the Minister of Finance, and on the judgment of the Minister of Finance."

Mr. MACDONALD (*Brantford*): Under the National Revenue Act as it stands he can still go on and do that?

Dr. CLARK: He can do anything he likes.

Mr. GRAY: Was there any evidence that there was any information whatsoever given by the Minister of Finance to the Minister of National Revenue?

Mr. SLAGHT: The evidence was there was never any.

Mr. MACDONALD (*Brantford*): I thought we might get this in sequence as to what the practice has been. You said in the past the Minister of National Revenue has relied on the findings that have been made by the officials of the Department of Finance. That is correct?

Dr. CLARK: And the Minister of Finance.

Mr. MACDONALD (*Brantford*): Under the National Revenue Act the Minister of National Revenue can continue to do so?

Dr. CLARK: Yes.

Mr. MACDONALD (*Brantford*): Under the amendment to the Bank Act which is before us what power has the Minister of Finance got with regard to making an inquiry which he did not have before?

Dr. CLARK: He has no additional power in regard to making an inquiry. All this amendment does is that instead of it being morally binding on him to express his judgment to the Minister of National Revenue it will henceforth be legally binding on him to tell the Minister of National Revenue what he regards the excess to be in the case of any allocation by a bank to its inner reserves.

Mr. MACDONALD (*Brantford*): Suppose the Minister of National Revenue, if this amendment is passed, does not think that his opinion is sound. Does he have to act on it?

Dr. CLARK: No, under the Income War Tax Act it is such an amount as he may allow. He can form his own judgment as to that in any way he likes.

Mr. MACDONALD (*Brantford*): So all this amendment does is to require the Minister of Finance and his departmental officials to make an inquiry with regard to the reserve and to make a report?

Dr. CLARK: No. The power to make an inquiry and the obligation to make an inquiry is in another section. All this does is to make it legally binding on the minister to tell the Minister of National Revenue whether in any case he thinks the amounts being reserved by a bank are excessive and, if so, the amount of such excess.

Mr. MACDONALD (*Brantford*): The Minister of National Revenue can listen to what he says or ignore it?

Dr. CLARK: Yes. But as a matter of government action, as you have a Minister of National Revenue and a Minister of Finance in the same government, I think it would be pretty anomalous if the two departments took two different points of view in regard to the same thing.

Mr. MACDONALD (*Brantford*): It might come to this, that you would have the Minister of Finance coming to one opinion as to whether or not reserves are excessive and you might have the Minister of National Revenue come to another opinion, or the same opinion, as to whether or not they are excessive, and you have the practical bankers, who probably know more about their accounts, necessarily know more about their accounts, coming to a different opinion altogether. Is that correct?

Dr. CLARK: I suppose that is possible. I do not think it is likely.

Hon. Mr. HANSON: What is the position that has developed out of this discussion? The jurisdiction is in the taxation department is it not?

Dr. CLARK: The jurisdiction to tax.

Hon. Mr. HANSON: Full jurisdiction to tax and to investigate.

Mr. SLAGHT: And to inquire.

Hon. Mr. HANSON: Investigate, inquire and tax also.

Mr. FRASER (*Northumberland*): And to levy.

Hon. Mr. HANSON: Is it not a sound principle that where the jurisdiction lies there should lie the responsibility? What you are trying to do here is to load some responsibility on the Minister of Finance without having any binding effect at all, and dividing the jurisdiction. I am going to vote against this amendment. I would rather see the law remain where it is than have an open water amendment such as this. That is all it is. It has got no teeth to it at all. You are better without it.

Mr. NOSEWORTHY: Mr. Chairman, there has been a good deal said about close supervision over the banks and the control, and so forth. The most disturbing factor to my mind in this whole situation is that so far as we can find out never in the history of banking has a Minister of Finance discovered before an excess inner reserve, and only then after a discussion had arisen in this committee. It seems very strange to me that over all the years of banking experience there should have arisen in 1943 circumstances such as never arose before.

Mr. SLAGHT: Under all different governments, too.

Mr. NOSEWORTHY: Under all different governments, and only after this discussion had begun in this committee did any finance minister for the first time in banking history discover that the banks were setting aside an excess inner reserve. That is the first point.

Hon. Mr. HANSON: That is only a matter of opinion even then.

Mr. NOSEWORTHY: As to the second point the minister makes it quite clear on page 438 of the evidence what the purpose of his amendment is. He says:—

This is, I will admit, a moral responsibility but I find it difficult to imagine a case in which it would not be effective. Nevertheless, now that the question of the adequacy of inner reserves is becoming more than an academic one and in spite of certain objections, I believe it desirable that the Minister of Finance should have specific legal authority to direct that where, in his opinion, amounts transferred to a bank's inner reserves are in excess of reasonable requirements having regard to all the circumstances, any such excess should be taken into net income and subjected to tax. Therefore I am proposing to move at the appropriate time an amendment to the bill to accomplish this purpose.

It is not only to make it obligatory that he shall inform the Minister of National Revenue but that the excess shall be taxed. The minister himself states that is the purpose of his amendment.

Dr. CLARK: I think that is the way it would work out, unquestionably.

Mr. NOSEWORTHY: The point we want to be sure of is does the amendment as presented achieve those two purposes?

Dr. CLARK: If the Minister of Finance tells the Minister of National Revenue that a certain bank has a reserve of which \$100,000 is unreasonable—

Hon. Mr. HANSON: In his opinion.

Dr. CLARK: In his opinion, yes, but do you think that the Minister of National Revenue under section 6 (d) of the Income War Tax Act could do anything else but tax it?

Mr. SLAGHT: He could ignore it as nothing at all under the law.

Hon. Mr. HANSON: Let me tell you this; it has happened many times that one minister in a cabinet will be charged with a certain jurisdiction and responsibility and another minister tells him that he should do something and he will tell him to mind his own business. That has happened frequently.

The CHAIRMAN: Gentlemen, after that disclosure I would suggest we allow the clause to stand until the Minister of Finance can be present. The minister, as you know, is absent in the house as a result of the budget debate. He has given a great deal of time to this matter and I think we should allow it to stand, out of deference to him. Is that the pleasure of the committee?

Mr. BREITHAUP: I will move that it stand.

The CHAIRMAN: Then we will go on with another clause.

Mr. MACDONALD (*Brantford*): Mr. Chairman, the members of the Retail Credit Federation have been here for several days. I wonder if we could hear them now?

The CHAIRMAN: Is it the pleasure of the committee to hear the representatives of the Retail Credit Federation?

Some hon. MEMBERS: Yes.

The CHAIRMAN: Will you please introduce the delegation, Mr. Macdonald.

Mr. MACDONALD (*Brantford*): Mr. Chairman and members of the committee, the delegation representing the Canadian Retail Federation are Mr. P. K. Heywood and Mr. Gilbert Jackson. I would suggest that Mr. Heywood be heard first. May I be privileged to ask him a few questions, Mr. Chairman?

The CHAIRMAN: Certainly.

Mr. P. K. HEYWOOD, President, Canadian Retail Federation, called:

By Mr. Macdonald (Brantford):

Q. Mr. Heywood, you represent the Canadian Retail Federation?—A. That is right.

Q. Will you tell the committee of what that federation consists?—A. The Canadian Retail Federation consists of a large group; most of the department stores across Canada, most of the chains, and in addition to that a large affiliated group of other retail associations.

Q. What about the small grocery stores?—A. The small grocery stores would be represented in our organization through the Retail Merchants' Association in each province.

Q. And are the Retail Merchants' Associations affiliated with your association?—A. The Retail Merchants' Associations in each province are members of our association.

Q. What would you say your total membership was?—A. Through affiliated organizations, in addition to our direct membership, probably in the neighbourhood of about 30,000.

Q. Would it be possible for you to name the definite organizations which form the federation?—A. Well, I could not begin to give you our direct membership, of course; but the associations who are affiliated with us are the Retail Merchants' Associations in each province, the Canadian Jewellers' Association, the National Shoe Retailers' Association, the Canadian Restaurant Association, the Ontario Furniture Dealers' Association, the Canadian Bicycle and Sports Goods Association.

By Mr. Slaght:

Q. What is the last one?—A. The Canadian Bicycle and Sports Goods Association; the Retail Furriers' Guild, the Quebec Jewellers' Association. That is all I can remember just at the moment. I have not the list in front of me.

By Mr. Macdonald (Brantford City):

Q. In your brief you said there were approximately 125,000 stores. Would that be correct?—A. I have a short memorandum here, Mr. Macdonald, that will change those figures slightly.

Q. Would you like to read the memorandum now? Is it very long?—A. No. It is very short.

Mr. McNEVIN: What is the page of his brief?

Mr. MACDONALD (*Brantford City*): The brief, I might say, is found on page 343 of the proceedings of the Banking and Commerce Committee.

By the Chairman:

Q. You are not going to read the brief now, are you?—A. No, sir. I have a short memorandum here.

Q. Yes. By the way, you are president of the association?—A. Yes, sir; I am.

Mr. MACDONALD (*Brantford City*): Oh, yes.

The WITNESS: I am president of the Evangeline Shops, a chain of stores, and at the moment I am president of the Canadian Retail Federation.

The CHAIRMAN: Continue, please.

By Mr. Macdonald (Brantford City):

Q. And your home is in Toronto, Mr. Heywood, is it?—A. Yes.

The CHAIRMAN: Will you read your memorandum, please.

The WITNESS: Thank you, sir.

The Canadian Retail Federation presented a brief to this committee the latter part of May, which was published in the proceedings of May 30. I direct your attention to that brief, when you have the opportunity to refer to it. To-day I merely wish to emphasize the importance of retailing as an integral part of our economy and tell you briefly why we have interested ourselves in the present revision of the Bank Act.

Canadian retailing is a very large industry. There are in Canada—and this is one change that I made in our brief—137,000 retail stores. We said 125,000 in our brief. They employ about 400,000 people. I regret to say that an error in our brief said 600,000 people. We are therefore correcting our former statement and say that including families of persons employed by retail stores, about one million Canadians depend for their livelihood on the business of retail merchandising. In addition, thousands of Canadian manufacturers,

[Mr. P. K. Heywood.]

both large and small, and a large section of our agricultural population, depend for the distribution of their products on the Canadian retailers' enterprise and efficiency. According to the 1941 census, the total sales were \$3,440,000,000, and we had a total payroll of \$318,000,000. Those are round figures.

Why have we interested ourselves in the present revision of the Bank Act?

In the first place, let me say that it is our opinion that the strength of the Canadian banking system is one of our greatest national assets. We are anxious to see that that strength is maintained. Regardless of many optimistic opinions that are expressed as to the volume of business that may be expected after the war, we visualize a difficult period of reconstruction, a period in which all our efforts will have to be devoted to maintaining and creating employment and in promoting trade, both internally and externally with every means at our disposal. In such a period, if business is to provide a national income commensurate with the needs of the country, confidence is essential. Confidence in the value of our money and confidence in our methods of its administration through our banking system will not only expedite our internal business transactions, but will open to us the channels of trade in every country.

We have, in common with all our fellow citizens, a vital interest in making possible employment for every one after the war. In our own industry we will undoubtedly be able to re-employ our staffs who are now in the services and also provide employment for a considerable number of people in excess of our present payrolls. We shall also spend many millions of dollars, when labour and materials become available, in rehabilitation of all kinds. We have not in recent years been able to keep our plants in either the best of condition, or as up-to-date as we would like to have them.

By Mr. Slaght:

Q. Excuse me a moment. I did not catch what you said just before that, "We were not able to keep our plants." Would you repeat that sentence?—

A. I said that we were not able to keep our plants in the best of condition or as up-to-date as we would like to keep them.

By the Chairman:

Q. Obsolescence.—A. Obsolescence. Continuing:

We need new lighting, new display fixtures, new trucks and handling equipment, new store fronts and in many cases new stores. The satisfaction of all these needs will employ many thousands of workers in a great many industries over a period of years. All that is required is confidence to go ahead with these commitments.

We are large importers of goods and in a very real sense we are the purchasing agents for the Canadian people in all the markets of the world. Our commitments in this regard are nearly always long term; and it is for this reason that we are so vitally interested in stability, in order that these commitments may be made with the assurance that we are providing our Canadian people with the products of the world on the most favourable terms possible.

We believe that stability and confidence are the keys to our prosperity in the years ahead. It is also our belief that in your present deliberations you can provide those keys.

That, gentlemen, is the reason that we appear before you, appealing to you for stability and confidence in our banking system.

In a discussion of this kind there will doubtless be some questions of a technical nature. We have retained the services of Mr. Gilbert Jackson, whom most of you know and who will act on our behalf in dealing with such questions. I thank you.

The CHAIRMAN: Thank you, Mr. Heywood.

Mr. MACDONALD (*Brantford*): Then, may I direct a few questions to Mr. Jackson, Mr. Chairman?

Mr. McGEER: Before you leave this witness, I should like to ask a few questions of him.

Mr. MACDONALD (*Brantford*): Then I would suggest you might come back to him after I have asked Mr. Jackson a few questions. I will not be very long.

Mr. GILBERT JACKSON called:

By Mr. Macdonald (Brantford):

Q. Mr. Jackson, what position do you occupy with the Canadian Retail Federation?—A. I am a consultant and they have consulted me.

Q. Are you a professor at the University of Toronto?—A. No.

Q. Were you?—A. Yes.

Q. When were you a professor there and what of, Mr. Jackson?—A. I was on the staff of the university from 1911 to 1935, with an interval of four years; and for a number of years I was a professor of economics, and in charge of the Course in Commerce and Finance.

Q. Then after 1935 what happened?—A. Then I left the university and went to England for four years and returned in 1939.

Q. From 1939 on what have you been doing?—A. I have been practising as a consultant.

Q. You are a consultant now?—A. Yes.

Q. I might call you a consultant or an economist?—A. Well, I do not call myself an economist. I call myself a consultant.

Q. I may err at times in referring to you as an economist, and I hope you will not mind. There is one question I should like to ask.

Mr. SLAGHT: Could Mr. Jackson sit down, if he wishes?

The CHAIRMAN: Yes. If you prefer to sit down, Mr. Jackson, please do so.

The WITNESS: I will do as you like.

Mr. SLAGHT: Most of our witnesses sit down.

By Mr. Macdonald (Brantford):

Q. Mr. Jackson, you have no doubt read the reports of the meetings of this committee in the newspapers and probably have read some of the official reports?—A. Yes.

Q. And you have been in the committee to-day and you heard the discussion with regard to inner reserves. I do not want to go into the question of inner reserves in great detail, but in view of the statement which Mr. Heywood has just made, what would you say with respect to the opinion of the Federation regarding inner reserves?—A. I find myself in complete agreement with Mr. Clarkson, although I could not discuss it on the technical basis that Mr. Clarkson did. In a nutshell, I would say that the Canadian banking system could conduct itself without inside reserves, but I do not think that Canada could afford to have the banking system conduct itself in that way.

Q. Why do you say that?—A. Because I think too many Canadians would lose their jobs, if we went on that basis.

Q. How can you relate the two?

Mr. SLAGHT: I am sorry, I do not hear you. Will you speak louder, please?

The CHAIRMAN: Yes, please speak a little louder, Mr. Jackson.

The WITNESS: I had better stand as I talk. I am a little obscure. What I said was that if the banks did not conduct their business with inside reserves, sooner or later too many Canadians would lose their jobs.

Mr. MACDONALD (*Brantford*): I do not understand that.

By Mr. Slaght:

Q. Lose what?—A. Lose their jobs.

Mr. McGEER: What do you mean by that?

The CHAIRMAN: Fall into unemployment, I suppose.

The WITNESS: The inside reserves of the banks are the banks' freedom deliberately to take losses. They are the banks' freedom to act with courage and to nurse their accounts in difficult times. They could keep their losses down to the minimum. If they did so, I think they would not be good citizens of Canada. I think that the inside reserves of the banks are the banks' power of being good citizens of Canada.

By Mr. Macdonald (Brantford):

Q. Do I take it that, if the reserves were disclosed, the banks would not have the freedom which they now have of making loans which might result in losses?—A. May I put it this way, sir? Let us suppose there are two banks, neither of which have inside reserves, and there comes a time of great stress like the 1930's, for example. One bank acts as a good citizen and deliberately incurs very considerable losses; and because the bank does not have an inside reserve, the taking of those losses is apparent to the public. I will suppose the other bank does not act as a good citizen in the same wholehearted way, that it plays safe—that is, in a sense letting the country down in those circumstances—and that it makes small losses or no losses at all. In a time of public alarm, I would expect the public to misunderstand the situation. I would expect the public to draw the conclusion that the bank which had been a good citizen was the bank which had not been well managed; and that the bank which had not been such a good citizen was the bank which had shown conspicuous evidence of good management. We put the bank which followed the course of the good citizen in a very, very invidious position in times like the 1930's, unless it has the freedom which it now enjoys because of its inside reserve.

Q. Would I take from what you say that, in your opinion, if it were not for inside reserves or inner reserves, the banks would not be as free to loan money to the merchants throughout Canada?—A. Or to anybody else.

Q. Or to anybody else.—A. That is to say, in any business in which there is a risk of loss. That would certainly include the merchants, who are risk bearers all the time.

Q. Yes. My questions relate to the merchants in particular.—A. Yes.

By Mr. Graham:

Q. Mr. Jackson, I am very anxious to hear you. Would you be kind enough to speak a little louder? The acoustics are not good in this room.—A. I will.

By Mr. Macdonald (Brantford):

Q. As I said, I am not going to spend a great deal of time on inner reserves. There is one other question I should like to ask you with regard to the next section which we will probably consider under this Act. It is with respect to the renewal of charters. Do the merchants of Canada, as represented by this federation, feel that the special privileges which the banks receive should be renewed to them for a period of ten years or for a shorter period of one year?—A. Would it be in order to take you up on the phrasing of that question?

The CHAIRMAN: A little louder, Mr. Jackson, please.

The WITNESS: Would it be in order to take you up on one phrase in that question?

Mr. MACDONALD (*Brantford*): I should like an answer to the question. I do not want to argue with you.

The CHAIRMAN: You will not be out of order. Go ahead.

The WITNESS: I do not altogether like the expression that the banks come up here for special privileges. That is not the way in which I view the procedure.

By Mr. Macdonald (Brantford):

Q. Do you suggest that the banks—

Mr. McGEER: Can the banks not speak for themselves? Surely this man is here to speak for the retail trade. Is he here for the bankers or the retailers? He has not said a word about the retailers yet.

The CHAIRMAN: Please, Mr. McGeer.

Mr. McGEER: I mean to say, this is a farce.

The CHAIRMAN: You referred the other day, Mr. McGeer, to scientific interference.

Mr. McGEER: This is not interference. I am raising a point of order.

The CHAIRMAN: You are out of order.

Mr. McGEER: We have a witness here under the guise of appearing for the retailers. When are we going to get to the retail end of it? This is a bankers' show.

The CHAIRMAN: Oh, no, Mr. McGeer. I think that to Professor Jackson—I call him Professor Jackson—is a very unfair, uncalled-for comment.

Mr. McGEER: Oh, no.

Mr. MACDONALD (*Brantford*): My question, Mr. Chairman, was whether or not the merchants felt it was in their interests that the—and I used these words—special privileges which are given to a bank should be renewed for a ten-year period or a two-year period.

Mr. SLAGHT: Mr. Chairman, I rise to a point of order. May I suggest this to the examining counsel. He says his question was whether or not the merchants felt, and so on. Mr. Jackson was careful in his previous answers to say, "In my opinion" and "In my view"; because I do not fancy he has consulted the 30,000 or 120,000 merchants that he is here for. I am afraid we will fill our record with a false impression if counsel puts that question to Mr. Jackson as though he were answering for 30,000 people, because he is not. He is here at their request, that is true.

Mr. McNEVIN: They must have confidence in him or they would not send him here.

Mr. SLAGHT: I am not speaking about confidence in him. But the way the question is put elicits an answer that 30,000 merchants think so and so; and I know that Mr. Jackson will tell you he cannot broaden his answer to that extent.

Mr. MACDONALD (*Brantford*): I understand, Mr. Chairman, that Mr. Jackson is here as consultant to the Retail Merchants' Federation and that he is speaking on behalf of the federation.

The CHAIRMAN: May I just add, because I made the inquiry just now from Mr. Heywood because of Mr. Slaght's reference to the fact that he had not consulted all the members of the association; I am told that Mr. Jackson has been in consultation with the executive of the association, or its principals.

Mr. McGEER: He did not question his sincerity.

The CHAIRMAN: He did question as to whom he had consulted.

Mr. McGEER: He questioned his own conscience.

The CHAIRMAN: I don't know about that.

Mr. McGEER: He questioned the renewal of the bank charters, as to whether he had been consulted with regard to these matters.

The CHAIRMAN: I am told that as a general policy he has consulted the executive of the Federation of Retail Merchants.

Mr. SLAGHT: How many are there in that list of 30,000?

Mr. HEYWOOD: Do you mean how many are there on our executive?

Mr. SLAGHT: Yes.

Mr. HEYWOOD: About twenty.

Mr. McGEER: Let me ask the president; have you consulted with Mr. Jackson on the question of the inner reserves?

Mr. HEYWOOD: No.

Mr. McGEER: Have you consulted with Mr. Jackson on the question of the renewal of the bank charters for any period of time?

Mr. HEYWOOD: Oh yes, we have discussed that point.

Mr. McGEER: And what were your instructions in reference to the banks?

Mr. GRAHAM: Now, Mr. Chairman, I do not think that is a proper question, to ask him what his instructions are.

Mr. MACDONALD (*Brantford*): I do not think Mr. Jackson has come here with instructions on everything he shall say. He has discussed this matter with the Federation, and I think my question is perfectly in order.

Mr. GRAHAM: May I suggest that I hope Mr. Jackson does not get the idea that Mr. McGeer and Mr. Slaght express the opinion of all the members of the committee; certainly they do not express mine. I am delighted to have the opportunity of getting information from Mr. Jackson on any matter that is under consideration by this committee. You are the author I think of "The Facts in the Case"?

The WITNESS: Yes.

Mr. GRAHAM: I am delighted at the opportunity we have of receiving comments from you on the matters here under discussion.

The WITNESS: Thank you very much.

By Mr. Macdonald:

Q. May I have an answer to my question now, Mr. Jackson?—A. Do you want an answer on the point I took you up on?

Q. I would be interested in hearing you on that.—A. As I said, I was expressing a purely personal view, possibly a limited view, when I said that I did not regard the banks as coming up for any special privileges in any way when their charters come up for renewal. My approach to the whole problem before this committee is somewhat different from some of the approaches that have been made here. As I say, sir, we are necessarily in the 20th century ("we," the public) in the business of deposit banking: we cannot possibly conduct our ordinary business unless we have some system of deposit banking. There has been a system of deposit banking of one kind or another for 300 years in the world and its story for a long time was one of great grief. The first deposit bankers as everyone knows were the Goldsmiths of London, and the first system of deposit banking was ruined because the government borrowed all the money and did not pay it back. That is just looking back over the centuries.

Mr. SLAGHT: We can still recognize that right now.

The WITNESS: Then when banking began again in England there was a very uphill drag until slowly the system was evolved by which we now live. England has a very strong banking system, but one which is not regulated by statute. Canada has seen fit—I think, wisely—to secure for the public that it shall have an absolutely safe system of deposit banking, so far as it can be safeguarded by legislation. My conception of the banks coming up for renewal of their charters every ten years is this. I do not picture these ten institutions asking for the renewal of a special privilege that nobody but themselves can enjoy. Rather, I picture their returning to give an account of their stewardship, and parliament asking itself—

Mr. SLAGHT: But they would not—

The CHAIRMAN: Order please, Mr. Slaght.

The WITNESS:—parliament asking itself if the safeguards of the system of deposit banking which we have set up have been adequate in the past or whether there is some improvement in the safeguards which we now can make. Parliament has set up many safeguards; while thousands of banks have failed in the past twenty years in the country next door to us, not one bank has failed in Canada; nevertheless the new draft bill is bringing in certain additional safeguards which were not there before.

What I did pick you up on was the use of the word “privilege.” I do not see that these enactments are a privilege enjoyed by the banks. I regard them as safeguards to the public. I think I am talking to my brief and expressing the feelings of my clients when I make that remark.

Mr. MACDONALD (*Brantford*): But surely, Mr. Jackson, the banks have certain privileges that other corporations do not have. Let me put it this way, they have the privilege of creating credit, at one time they created money—

Mr. JAKES: They do now.

Mr. MACDONALD (*Brantford*): Under the present Act that privilege will be taken away from them—

Mr. JAKES: Oh, no.

Mr. MACDONALD (*Brantford*):—by 1950, but they will still be able to create credit; or as someone said yesterday, it is the same thing as turning a crank and creating money (that is the way it was put) at a cost of less than half a cent and loaning it out at 5 and 6 per cent. Now, would you not consider that a privilege, a special privilege?

The WITNESS: I certainly would consider that a privilege, but I do not think they have it. The creation of credit is the business of the central bank, and our central bank is the creature of the Canadian people.

Mr. MACDONALD (*Brantford*): Mr. Jackson, as I understand it, if a bank has a certain amount of Dominion of Canada notes that they can create credit, or deposits, to the extent of twenty times that amount under the Act, and in practice ten times; is that not a privilege?

The WITNESS: The bank has the privilege by law of holding only five per cent of its assets in the form of cash but it does hold about 10 or 11 per cent of its assets in cash.

Mr. McGEER: Not its assets, its liabilities.

The WITNESS: I will use the word “liabilities”. The amount would be the same—but thank you for the correction.

By Mr. Macdonald (Brantford):

Q. I wonder if I might put a question to you here as an economist, if I may be allowed to call you that, on your appearance before this committee. Could you give us the definition of some of the terms; I suggest a definition of “money”

and a definition of the word "credit"?—A. I would like, if I may, to give you the classic definition of the word "money" which figures in most classrooms. Money is any thing which passes from hand to hand as a medium of exchange without requiring special knowledge on the part of the user.

Mr. SLAGHT: Without requiring what?

The WITNESS: Special knowledge on the part of the user. And as to "credit" I should like to give you the definition of von Mises, that credit is the exchange of present goods for future goods.

Mr. McGEER: Would you include present debt and future debt?

The WITNESS: Well, the word "goods" is an inclusive word. I do not want to get into the field of logic.

Mr. McGEER: No; but would you say the public debts are included in that category?

The WITNESS: I would say that if I hold a government bond, that is a good; but I would like to make the statement general if I may, that credit is the exchange of present goods for future goods.

Mr. SLAGHT: Which means that if you put your money in bonds they become "goods"?

The WITNESS: In the sense in which I used the term a bond would be "goods".

By Mr. Macdonald (Brantford):

Q. Getting back to my previous question in regard to special privileges granted to the bank (you took exception to the use of that word), is it not true that the banks do create credit; they do not issue notes now in their own name but they still create credit of their own upon which one can go and obtain goods?

—A. That is a very, very difficult question. It is the \$64 question. If the banks maintained an invariable proportion of cash to liabilities to the public I would say that the answer would be no. Actually the banks' proportion is not invariable, it is on an average about $10\frac{1}{2}$ per cent and it sometimes runs a little higher, sometimes a little lower; to the extent that the banks vary the proportion of their cash reserves in a small degree, I would say yes, they do create credit. But if you are talking about the creation of credit in general, the creation of it is instigated by the actions of the central bank, and only in that way.

Q. Coming back to my other question as to the length of time—we probably got away from Retail Federation for a moment—coming back to the length of time for which the charters should be renewed (I will put it that way instead of saying special privileges), does the Retail Federation feel that there should be a renewal of a short period of say two years or a longer period of ten years?—A. In general terms the Retail Federation foresees a long and very difficult period of reconstruction. I would not like to set a term of years to that. They want to know where they are in relation to the banking system during that very long and difficult period. That is why they would like a renewal of the charters for ten years rather than for any short period like two.

Q. Well, Mr. Jackson, it has been suggested—I don't know if the statement has actually been made, but it has been suggested that during the past ten years, especially in 1932, 1933 and 1934, if the banks did not cause the depression in Canada, they contributed to that depression; what would you say as to that statement?—A. Well, the banks have put up very little defence for themselves, sir, so I do not blame anybody from talking in terms of that kind. But I think that to do so gives an entirely wrong impression.

Q. Why would you say that?—A. The banks if they had followed an over-anxious policy, calling in loans, could have made the situation worse. I think a simple examination of the facts shows that they did not do anything of the sort.

Q. Have you examined the facts, are you in a position to give us an opinion?—A. Very recently I really looked at the facts historically for the first time, and I have a little bundle of diagrams here which I should like to be allowed to show to the members of the committee, and which I think tells an interesting story.

Q. As I recall it seems the figures in your book entitled "The Facts of the Case"; are they similar diagrams? I know it relates to a different question, what I mean is do they set forth your points in a similar manner?—A. They have been made as simple as possible but they are not the same diagrams.

Q. Of course they would not be the same figures.—A. They have been set up on the same principle.

Mr. MACDONALD (*Brantford*): I think they should be filed as an exhibit, Mr. Chairman.

The CHAIRMAN: Is that the pleasure of the committee?

Some hon. MEMBERS: Agreed.

Mr. GRAHAM: I take it that Mr. Jackson will explain and discuss the diagrams with us.

The WITNESS: I have them here, sir, and I actually printed them in a little booklet.

Mr. MACDONALD (*Brantford*): You have them there in a little booklet?

The WITNESS: This particular booklet consists entirely of diagrams. They need to be explained. They tell the story. At the same time it is not a story which can be taken in a moment. What I would like to do is simply give the booklet to the committee and if anyone would like to examine me on them later I would be glad to stand examination. I think that would save time rather than for me to talk about them now when no one has seen them.

Mr. McGEER: You know that the banks themselves have acknowledged that it was the abnormal credit conditions they created that initiated and maintained the situation.

The WITNESS: I have not that knowledge myself, sir, but I cannot speak for the banks. They may know but I do not.

The CHAIRMAN: I think, Mr. McGeer, it is general knowledge that the depression came two years before what is called the financial crisis; at least that is the statement I take it of the Economic Committee of the League of Nations.

The WITNESS: Yes, sir.

Mr. McGEER: Here is a report of the Royal Bank of Canada for the year 1931, issued on January 8, 1932. The statement of the president is that there can be no doubt that our abnormal credit conditions during 1928 and 1929 must be held primarily responsible for initiating the present world-wide depression.

The CHAIRMAN: Well, Mr. McGeer, I happened to have argued that matter out with the man who wrote that report and I proved for my own satisfaction that he was wrong.

The WITNESS: And I would say, sir, that I am speaking for the Retail Federation and not for the Royal Bank.

Mr. GRAHAM: The document that Mr. Jackson has referred to is available I understand. Could we have it?

The WITNESS: I have just passed some copies down.

The CHAIRMAN: Would you like to have them reprinted in our minutes?

Mr. McGEER: Let us see what they are first. I mean to say that we have not had a word from this witness as to what his knowledge of banking is, why he is an expert witness. Now we have diagrams presented to us to be printed and there is not a member of this committee who knows the least thing about what those diagrams indicate or what their value is.

Mr. BREITHAAPT: He is ready to show us. There are some people in this committee who seem to think they know everything there is to know about banking; and others of us want to learn.

Mr. McGEER: I do not think that comes with very good grace from you.

Mr. BREITHAAPT: Some people here speak as though they are the only ones who know anything about banking.

Mr. McGEER: I am not asking for your opinion. You are prepared to take anything without information. .

Mr. BREITHAAPT: I am not. Mr. Chairman, I maintain that we have had other witnesses in this committee and have asked them what their associations were and so on, but we have never asked them if they had individually seen all the members of the organizations they represented. I do not think we need to go that far. What I say is, give this man a chance.

Mr. McGEER: I thought I suggested that we might let him explain what his diagrams are and then we will be able to decide whether we want to have them printed or not.

The CHAIRMAN: Mr. McGeer, it is the intention to distribute the diagrams; and Mr. Jackman has stated that after the members have an opportunity of seeing the diagrams and of going over them, he will be glad to stand examination on them. He made that very very plain. Now then, in so far as his standing is concerned, we have already been told that he was Professor of Economics at the University of Toronto for some years. And now, it is one of the functions of a Professor of Economics to deal with monetary economics; and many a practical banker, as Mr. Macdonald has mentioned, has passed through his classes.

Mr. MACDONALD (*Brantford*): Now, Mr. Chairman, I have no further questions to ask Mr. Jackson; but I did want to bring out the opinion of the Federation with respect to the length of time for which the charters should be renewed and that has been done.

Mr. GRAHAM: Mr. Chairman, it is now twenty minutes to six. I am looking forward to a very valuable contribution from Mr. Jackson, and I am delighted to have him here. I was going to suggest that we adjourn so we may be able to scrutinize these charts and acquire an adequate appreciation of them so that when we proceed to-morrow we may do so more intelligently than perhaps would otherwise be possible.

The CHAIRMAN: Is it the pleasure of the committee to adjourn until to-morrow at 11 o'clock?

Some Hon. MEMBERS: Agreed.

The Committee adjourned at 5.45 o'clock p.m. to meet again to-morrow, July 14, 1944, at 11 o'clock a.m.

July 14, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: When the committee adjourned yesterday afternoon we had Mr. Heywood and Mr. Gilbert Jackson before us. Is it the pleasure of the committee to have them appear again this morning?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Then I would ask Mr. Heywood and Mr. Jackson to please come to the table.

Hon. Mr. HANSON: Did they file a written brief?

Mr. MACDONALD (*Brantford*): Yes. It is printed in the proceedings at page 343.

Mr. Chairman, when I questioned Mr. Jackson yesterday as to his academic and business experience, apparently I did not go into it in sufficient detail. To me Mr. Jackson is more or less of a national figure in Canada in the field of economics and finance, and I did not think it was necessary; but in order that the record may be kept clear, I had better go into it to-day very briefly.

Mr. GILBERT JACKSON, recalled.

By Mr. Macdonald (Brantford):

Q. Mr. Jackson, are you a graduate of a university?—A. The only degree I have is from Cambridge.

Q. You graduated from Cambridge?—A. Yes.

Q. After graduation what did you do?—A. I came out to the University of Toronto.

Q. In what capacity?—A. To lecture in economics.

Q. And you lectured in economics at the University of Toronto?—A. Yes.

Q. In what year?—A. From 1911 until 1915.

Q. What happened in 1915?—A. I went to the war, like everybody else.

Hon. Mr. HANSON: Like most of us.

The WITNESS: Then I was absent at the war from 1915 to 1919 and back on the university staff from 1919 to 1935.

By Mr. Macdonald (Brantford):

Q. What position did you have on the staff in those years?—A. Various positions; but I ended in charge of the Course in Commerce and Finance.

Q. And did you continue to lecture in economics?—A. Yes.

Q. Did you do any work outside of your lecturing in the university?—A. Yes. I did a good deal of consulting work, and I was economist to the Bank of Nova Scotia for eight years.

Q. You were economist for the Bank of Nova Scotia for eight years?—A. Yes.

Q. You resigned in 1935, did you say, from the university?—A. In 1935 I resigned from the university and I resigned from the Bank of Nova Scotia.

Q. Where did you go then?—A. Then I took service with the Bank of England and was in London, England, for four years with the Bank of England.

By Hon. Mr. Hanson:

Q. In the same capacity?—A. Well, the title I had there was Advisor to the Governors.

By Mr. Macdonald (Brantford):

Q. Advisor to what?—A. Advisor to the Governors of the Bank of England.

By Mr. McGeer:

Q. You were not responsible for what happened, I take it?—A. I was only responsible for giving advice.

By Mr. Macdonald (Brantford):

Q. That would take us to 1939?—A. Yes.

Q. In 1939 what happened?—A. In 1939 I resigned from the Bank of England and went into practice in Canada.

Q. Private practice in Canada?—A. In Canada.

Q. At what city?—A. In Toronto.

Q. And what are you doing at the present time?—A. I am a consultant.

Q. And you have been since 1939?—A. Yes, I have been since 1939.

Q. Have you any relationship or association with any chartered bank or the Bank of England at the present time?—A. No.

The CHAIRMAN: Order, please, gentlemen.

By Hon. Mr. Hanson:

Q. Are you under retainer?—A. No. I am not under retainer from any bank. I should not object to being under retainer, but I am not.

Q. No. I should not think you would object.

By Mr. Macdonald (Brantford):

Q. As you said yesterday, you are a consultant?

The CHAIRMAN: Order, please. May I just ask for order and may I also ask Mr. Jackson to speak just a little bit louder, because it is very difficult for the committee to hear every word.

By Mr. Macdonald (Brantford):

Q. Let me clear this point up. What relationship have you now with the Canadian Retail Federation?—A. They came to me some months ago and asked if they could use me as consultant in connection with the appearance they wished to make here.

Q. And the brief was filed by the Canadian Retail Federation?—A. Yes.

Q. Did you assist in the preparation of that?—A. I helped. I did not draft the brief but I helped in the preparation of it.

Q. Yes. And it is signed by Mr. Heywood?—A. Yes.

Q. Having regard to the views which you expressed here yesterday, have you discussed with them the questions which were considered and the views which you expressed?—A. We did not discuss all the points that have been raised in this committee. We could not foresee all the points that would be raised in this committee.

Hon. Mr. HANSON: Or no one else.

The WITNESS: But we did take the Bank Act clause by clause and go through it in order to work out what were the views of the association on any clause in which they might have an interest.

By Mr. Noseworthy:

Q. Just a minute. When you say "we", Mr. Jackson, just whom do you mean by "we"?—A. "We" are my employers and myself; the executive of the federation and myself.

By Mr. Macdonald (Brantford):

Q. And you appear now as a representative and consultant of the Canadian Retail Federation?—A. Yes.

Q. May I go back to England just for a minute. Did I understand you to say yesterday that there is no Bank Act in England?—A. That is true.

Q. There are chartered banks in England?—A. Not chartered banks. There are banks.

Q. Is there not a Charter Act?—A. There is a Bank Charter Act which is or which was the Act governing the operations of the Bank of England. The Bank Charter Act would really correspond with the Bank of Canada Act here.

But a commercial bank in England operates under the Companies Act; and as far as I know there is no special legislation governing banking in England.

Hon. Mr. HANSON: That is right.

By Mr. Macdonald (Brantford):

Q. So the banks in England do not have their charters renewed periodically?
—A. No.

Q. As in Canada?—A. No. We have a unique procedure here.

Hon. Mr. HANSON: Yes.

By Mr. Macdonald (Brantford):

Q. What relation has the Bank of England to the commercial banks? Is it a commercial bank?—A. The Bank of England has perhaps some small vestige of commercial business left, because it had commercial business in the past; and when it became fully a central bank, it could not toss out of the window in a day all the commercial business it had possessed. But so far as I know, the Bank of England has no commercial business now.

By Mr. Jaques:

Q. It is a private corporation?—A. It is a very curious corporation. I think it is fair to say it is a private corporation.

By Mr. Macdonald (Brantford):

Q. Does it correspond to our Central Bank in any way?—A. Very closely.

Q. One difference would be that our Central Bank is entirely publicly owned?—A. Our Central Bank is entirely publicly owned. The British Central Bank is entirely the property of private shareholders.

Q. Are you familiar with the legislation of the United States with regard to banks; that is to say whether there is a Bank Act there covering commercial banks?—A. In the United States you have a vast quantity of legislation because the federal government and the 48 states all have a finger in the pie. I have known something at one time or another of American banking legislation but I would rather not be questioned about that because I do not feel sure enough of it myself.

Q. Well now, I have but very few more questions to ask. There is one question though I would like to refer to, one which was asked yesterday; perhaps I should say suggested to you yesterday; and I thought that perhaps my suggestion was not in accordance with the facts, that the commercial banks create credit. If I remember correctly you stated that with one exception I was incorrect. If I am wrong, I would like you to correct me. In any event I would like to have you amplify the answer which you gave.—A. I do not recall the exact words I used yesterday but perhaps I could put it this way; if the cash ratio of the commercial banks were an invariable 10 per cent, neither more nor less—which is not the case, but if it were the case—I would say that the function of creating credit would be the function of the central bank entirely.

Q. You are speaking, I take it, with respect to the banks as they are today?
—A. Yes.

Q. Would it be correct to say that in the past they had created credit?—A. The situation would be different if there were no central bank. The situation was different before the Bank of Canada came into existence. The statement I made relates purely to a country which has a central bank effectively controlling banking.

Hon. Mr. HANSON: Is that the situation in Canada?

The WITNESS: Yes.

By Mr. Macdonald:

Q. Will you go this far with me, that if I obtain \$1,000 from the central bank—

Hon. Mr. HANSON: You can't.

Mr. MACDONALD: Yes.

Hon. Mr. HANSON: Oh no, you cannot get \$1,000 from the central bank.

Mr. MACDONALD: But the central bank is creating currency, and has been in the past.

Mr. McGEER: They buy securities in the open market, the Bank of Canada buys securities in the open market.

By Mr. Macdonald:

Q. Supposing the Bank of Canada buys securities in the open market, if they buy securities to the extent of \$1,000, as I understand it I get Bank of Canada cash. I take that Bank of Canada cash and deposit it in a commercial bank?—A. Yes.

Q. Is it not a fact that under the Bank Act as it stands to-day the bank can create credit to the extent of 20 to 1, in fact 10 to 1?—A. Your money was created by the Bank of Canada and did not come from any other source?

Q. Yes, we will get back to that.—A. I am only clearing up the question, that is all.

Q. Yes, that is right; I think I follow you. If I take that \$1,000 in Bank of Canada money to one of the commercial banks and deposit it there, there would be an increase in the credit created by and large; there would not be a decrease in one bank and an increase in another?—A. Yes.

Q. Well now, the point I have in mind is, that I have a thousand dollars in new money—

Mr. McGEER: From the Bank of Canada.

The Witness: Yes.

Mr. MACDONALD: From the Bank of Canada, and I deposit that in a commercial bank. Now, my suggestion is that the commercial bank can then create credit to the extent in practice of ten times \$1,000?

The WITNESS: I think that is the very simplest form in which to make that statement; if I may say so without offence, I would not put it that way myself.

By Mr. Macdonald:

Q. That is the only thing we understand in this committee.—A. My last observation was not intended to be censorious. By the deliberate action of the Bank of Canada, forces are set in motion, as a result of which it may be that the banking system as a whole would expand its assets and liabilities by something like ten times the sum that you deposit.

Q. So there would be an increase in credit, and it seems to me a corresponding increase in liabilities?—A. There would be an increase in the assets of the banking system as a whole, and an exactly corresponding increase in the liabilities of the banking system.

Mr. SLAGHT: And the medium of exchange.

The WITNESS: Using the word to cover bank deposits, yes.

By Mr. Macdonald:

Q. And we would all benefit from that, I take it, from your statement?—A. The country's assets, measured in dollars, would be larger; operating in the first place on the banking system, the Bank of Canada would have set in motion

a force increasing the dollar assets of all of the Canadian people. But, of course, if the Bank of Canada were to give us too many \$1,000 dollar bills, the dollar might be cheapened considerably—might lose much of its purchasing power; that is a matter which the central bank has to bear in mind all the time.

Q. I suppose it would be necessary if there were a great increase in the dollars to have many controls?—A. The central bank has in its wisdom to decide how much credit this country needs. It will from time to time decide when the base of credit should be expanded and from time to time it may decide to set in motion forces of an opposite character, which will have the effect of lessening the assets of the people at large and of course lessening banks' assets. It can operate both ways.

By Mr. McGeer:

Q. The banks can decide that independent of the Bank of Canada, can they not?—A. I am afraid I do not know how; but it may be that I have not understood the remark.

Q. I said, the banks can direct credit themselves independent of the Bank of Canada?—A. My statements have been made on a somewhat arbitrary assumption that the cash reserve is maintained at a steady 10 per cent.

Q. I know, but that is not so.—A. But if the banks were to hew to an even 10 per cent cash reserve then, in doing so, they would have abandoned altogether their power of initiating such changes.

Q. But would it not be better to say that if the Bank of Canada held the banks to a 10 per cent cash reserve they would control, but it does not do that?—A. I think perhaps the facts are worth looking at. I took them the other day and studied them for the first time. If one takes the monthly statements of the chartered banks from the day when the Bank of Canada opened its doors, one finds that in almost exactly one-half of the months the banks held a cash reserve of under $10\frac{1}{3}$ per cent, and in almost exactly one-half of the months they held cash reserves of over $10\frac{1}{3}$ per cent. The range of variation is very small. Most of the time the cash reserves vary between 10 and $10\frac{2}{3}$ per cent. Occasionally they drop a little below the 10 to something like 9.9; and occasionally they run over $10\frac{2}{3}$ per cent. You really have something like the play of a wheel in a locomotive; you have a play averaging one-third of one per cent over or under the $10\frac{1}{3}$ per cent which is the normal cash proportion of the chartered banking system.

Mr. MACDONALD: I think that is all the questions I have at the moment, Mr. Chairman.

Mr. McGEER: Are we going to have an explanation of this, Mr. Chairman? (indicating booklet of diagrams).

The CHAIRMAN: That is a matter for the committee to decide.

By Mr. Noseworthy:

Q. Before you go into that there is just one question I would like to ask, following up Mr. Macdonald's question there regarding the ability of the Bank of Canada to contract and expand credit: suppose we entered a period such as we entered at the beginning of the 30's and the banks found it no longer profitable to lend money and the borrowers no longer found it profitable to borrow money and the Bank of Canada for its expansion program must depend upon the banks' lending, what is there to remedy that situation?—A. What can the central bank do to forestall depression? Am I repeating the question properly?

Q. To create expansion at the beginning of a depression period when expansion in credit is needed.—A. In this country I think the natural procedure would be for the central bank to buy securities.

Q. Follow that through, will you?

Hon. Mr. HANSON: Put out currency.

The WITNESS: Buying securities would increase the cash reserve of the banks and would set in motion forces counteracting the depression influences which it saw coming along.

By Mr. Noseworthy:

Q. When deposits are created in a bank it still remains for the bank to lend those deposits?—A. The bank cannot lend unless it has borrowers who wish to borrow. If there is a willing borrower then the bank has the choice of buying securities or making loans, and I should imagine that from the standpoint of profit the choice would always be in favour of making loans, if possible.

Q. We had representatives of a farmers' group here who made it clear to the committee that during that period there were vast numbers of farmers who wanted to borrow but could not borrow from the banks because the banks felt their security was not sufficient or, in other words, it would not be profitable business for the bank to lend. I am just wondering what the answer is to that problem?—A. The position of a given farmer would depend a very great deal on the state of the market, obviously. I could well imagine some farmers might be a very good credit risk when wheat was at \$1.50 and a poor credit risk when wheat was at 50 cents. I think that is one of the facts of the situation which one has to recognize.

Q. In other words, there are circumstances in which the Bank of Canada would be unable to effect an expansion of credit?—A. I do not see how the Bank of Canada can offset a world-wide influence like a fall in the price of wheat on an individual farmer who seeks to be credit worthy. It is an unfortunate feature of the situation, but that is so.

Q. Or on a nation of farmers?—A. What the Bank of Canada can do is to govern the volume of credit but it cannot by governing the volume of credit shelter everybody from all storms that may blow up. I wish it could.

The CHAIRMAN: When the committee adjourned there was distributed a little brochure entitled "Sidelights on the Great Depression". It has been suggested by Mr. McGeer that Mr. Jackson be given an opportunity to explain the diagrams which have been in the hands of the members of the committee overnight.

Hon. Mr. HANSON: I have not seen them. Before you leave this question—

The CHAIRMAN: Just a minute, Mr. Hanson; is it the pleasure of the committee after Mr. Hanson has finished his questions that we ask Mr. Jackson to make any comments that are required?

Mr. GRAHAM: I think, Mr. Chairman, a copy of this should be filed as an exhibit so the questions can be correlated by a student.

The CHAIRMAN: It will be filed as exhibit No. 37, I am told. You have a copy?

The WITNESS: I have a copy in front of me.

Mr. McGEER: I think it would be well that it should be printed.

The CHAIRMAN: Is it the pleasure of the committee to have it printed in the record?

(Carried.)

Hon. Mr. HANSON: I am just a country lawyer and not an economist, but I am trying to learn something.

Mr. McGEER: You are doing pretty well.

The CHAIRMAN: I object to that statement. You are a former chairman of this committee.

Mr. McGEER: You are getting an education here, too.

By Hon. Mr. Hanson:

Q. Arising out of the questions put to you by Mr. McGeer and the previous questions of Mr. Macdonald I should like to ask you this; on the basis you have mentioned with a fairly static cash reserve position in the commercial banks varying very slightly, as I understood you, your conclusion is that the control of credit and currency is wholly vested in the Bank of Canada and not in the commercial banks?—A. Yes.

Q. Under the circumstances as you have delineated?—A. Yes.

Q. And that they would under those circumstances have no effective control over credit and currency? That is the conclusion you have reached?—A. The commercial banks?

Q. Yes.—A. Would have no effective control over the volume of credit. The commercial banks retail credit to persons like myself, for instance; the Bank of Canada governs its amount.

Q. Is that the only expansion of the answer you have made that you wish to give because we have been told here a deposit creates a credit and that you can pyramid it and pyramid it and pyramid it. I never believed that, but I am almost invited to believe it.—A. I think it is to some extent a question of the use of language. We can chop logic on the choice of a word when in fact we, do not stand far apart. You may use the phrase, as a banker, when you have loaned me \$1,000, that you have created a credit of \$1,000 in my favour. That may be a proper phrase although it may not be a correct description in the scientific sense of what you have done. As I see the banker he is controlling a very large body of assets, the size of which is determined fundamentally by the central bank, and is not a matter of his volition. He is doing as large a share as he can get of the banking business of the country which is itself completely under the control of the central bank. Your banker holds his assets in many forms, and the form of those assets is changing every day. Every banker every morning looks at the distribution of his assets, asks himself what shifting around is necessary in the light of what his bank is doing, and what is happening at the moment. He has complete freedom to move around his assets, but that freedom exists subject to the overriding control of the central bank which Mr. Towers has explained in so much detail.

Mr. JAKUES: Mr. Chairman, I should like to ask Mr. Jackson a question.

By Mr. Jaques:

Q. Is it not a fact that the reason why the government has borrowed from the chartered banks for its necessary finances instead of the Bank of Canada is because if it borrowed from the Bank of Canada when the Bank of Canada money found its way into the banks, which of course it would do, then the banks would be able under the existing law to expand that money into twenty times as much? Is that not the practical reason why the government today borrows from the chartered banks instead of from the Bank of Canada?—A. I do not think it would be proper for me in the presence of the Minister of Finance to tell any member of this committee why the government of Canada follows a certain policy.

The CHAIRMAN: We do it all the time.

The WITNESS: I think it is a very good question, but I would far sooner see it addressed to the gentleman on my left.

By Hon. Mr. Hanson:

Q. The minister gave as the reason that it was more inflationary in the one case than the other. That is the basis of the minister's reason. You agree with that?—A. Yes.

By Mr. Jaques:

Q. I suppose you have read the answer in *Hansard* because that is the reason the Minister of Finance has given those of us in the house who have pressed for the use of the Bank of Canada instead of the chartered banks, that by borrowing from the Bank of Canada it would be that much more inflationary?—A. If the government were to borrow from the Bank of Canada they would be expanding the cash of the banking system in a manner which I imagine they might afterwards regret. That is a point on which I think we both agree, is it not?

Q. No, I am merely asking a question.

By Hon. Mr. Hanson:

Q. That is only one factor. What about the effect on the depositors of the commercial banks if the government did that? Would it be unfair to them?—A. I think it would let loose disastrous forces of inflation.

Q. I agree with you—A. But here I am merely a private citizen offering an opinion.

Q. That is all you are asked to do.

By Mr. McGeer:

Q. You apply that as an arbitrary rule against any borrowing from the Bank of Canada?—A. If I were the Minister of Finance I should hate to bind myself by arbitrary rules that I must obey in all circumstances, but if I were faced at the beginning of the war with the problem of financing it, I should start by hoping that I could do all my borrowing by the sale of securities to the public. I should wish to borrow nothing from the Bank of Canada or from the chartered banks. I might find myself driven to borrow from both, but I would regard borrowing from any bank as undesirable so long as I could borrow that dollar from the public.

Q. Because there is a danger of inflation?—A. Because there is a danger of inflation and because the borrowing process—the process of borrowing from the public—is essentially part of the waging of the war. In other words, speaking as a citizen and a small buyer of war loans, if my consumption is maintained at anything like the pre-war level I am consuming goods and using productive energy which ought to be producing planes and tanks. The only way in which, as a civilian, I can make an effective contribution to the war is by cutting down my personal consumption, and if it is not cut down sufficiently by Mr. Ilsley in his capacity as tax gatherer then it is up to him to persuade me to cut it down further by buying his loans; and it is not an effective substitute to sell the bonds, which I should have bought, to the Bank of Canada or a chartered bank.

By Mr. Fraser (Northumberland):

Q. You set up thrift and security for yourself?—A. Certainly.

By Mr. Jaques:

Q. What you have said, Mr. Jackson, is that in war time thrift and taxation are necessary policies in order to cut down the consumption of retail goods?—A. Yes.

Q. Then, after the war you would agree that the exact opposite should be followed?—A. After the war I hope the minister will balance his budget.

Q. The question I asked was that if heavy taxation and savings, instead of thrift on the part of the public—if that is the best policy for war time—and I will not deny it—then surely when the conditions are reversed, and especially from the point of view of the people who are represented here, would not the exact opposite be true after the war: that you have to cut down taxation as much as possible and the people have got to spend as much as possible instead of saving as much as possible?—A. Mr. Jaques is not suggesting that thrift is a virtue in war time and a vice in peace time, is he?

Q. Very nearly, yes.

Hon. Mr. HANSON: He said so in the house.

Mr. JAQUES: I certainly did.

The WITNESS: I am sorry, but I must disagree very respectfully.

By Mr. Jaques:

Q. Perhaps I had better define thrift. I am not using "thrift" now in the sense of putting everything to its best use; the sense in which I use the word here is saving money, which is a totally different thing, because I know a case where money was saved in one small instance at the beginning of this war on fire protection in national parks—the appropriation was cut down. Now, that might have saved some money, but if it risks the safety of the forests I think it is a very poor kind of thrift. You said you would balance the budget. That means that the Minister of Finance must have a large turnover to do that. If people are going to be thrifty in the common sense of the word, perhaps you could tell us how the budget could be balanced. They tried it after the last war in England. The theory was that in order to balance your budget then everybody had, of course, to cut down expenses and they found that was just exactly the wrong way to do it.

Mr. McGEER: That was Bank of England policy at that time.

By Mr. Jaques:

Q. How would it be possible, in your opinion, to balance the budget after the war?—A. I am afraid, sir, that if I tried to answer that question I should have to talk to this committee for the rest of my life. I am sorry to run away from any question, but that one is difficult to undertake at this stage of the proceedings.

By Mr. McGeer:

Q. You said, as an expert or a consultant, that after the war you hoped the Minister of Finance would balance his budget?—A. I did.

Q. We would all like to see that done, but we would like to know how it could be done?—A. If I may answer your question I may say that I hope the minister would be so economical in his administration of Canada and so ruthless in continuing to collect the necessary taxes that his income and his outgo balance as a rule.

Q. Curtail public expenditure and increase taxation until the budget is balanced?—A. I did not say curtail public expenditure and I did not say increase taxes. I said that he should earn as much as he spends. I do not know at what level public expenditure will be necessary because that is in the control of the parliament of Canada. We must wish for a balanced budget whatever the necessary level of expenditure in peace time; how heavy the burden of taxation is going to be depends upon how extravagant the expenditures of the government of Canada are going to be, and those are two unknowns which at the present time I cannot talk about.

By Hon. Mr. Hanson:

Q. It is an historical fact that Mr. Roosevelt was elected in 1932 on his policy of balancing the budget?—A. It was.

Q. And he got into power and then found forces so ruthless that he abandoned the policy, did he not?—A. Yes.

Q. And he went in for a deficit budget on a large scale. We are all creatures of circumstances?—A. Very much.

By Mr. Jaques:

Q. Does not a balanced budget presuppose a static economy?—A. I do not think so, sir.

Q. You do not think so?—A. No, no more than the balancing of my personal income and my personal outgo means that I am static. I may be getting richer or poorer, but all the same, I can balance my expenditures and my revenue.

Q. Yes, as an individual. Experience has proved that the attempt to balance budgets in the past has brought about not only a static, but shall I say, a retrogressive state of economy?—A. I can only say that experience has not proved it to me.

Q. You are very fortunate.

By Mr. Slaght:

Q. I have a few questions I wish to ask. Mr. Macdonald yesterday introduced a pretty well-worn topic in our committee, that of inner reserves. Having done so, I want to ask you a few questions about them. May I take it that inner reserves, except that they are hidden—the amount is not disclosed and they are not taxed in the current year with the earnings accrued—are the same in character as the disclosed reserves? I can find no difference in quality. They are both liable for losses of the bank; they are both liable to pay deposits if they have to be infringed upon; is not that true as a general statement?—A. The whole of the shareholders' assets are available to meet losses. That goes for the capital as well as the published reserves of the bank.

Q. I was not asking about that; I am asking this simple question. We know there are disclosed reserves that have never been less than \$136,000,000 in nineteen years on a capital of \$145,500,000. We have been told that during that nineteen years there have been piling up gradually what are called inner reserves. Mr. Tompkins tells us that they are greater now than when he came to office nineteen years ago. Is there any difference in the character of the reserves?

Mr. MACDONALD (*Brantford City*): I do not recall that statement by Mr. Tompkins.

Mr. SLAGHT: Then you can look up.

Mr. MACDONALD (*Brantford City*): I do not think the statement was made.

Mr. SLAGHT: I want to know simply, Mr. Jackson, whether there is any difference in character between the type of reserve called disclosed reserve and the type that is called inner reserve, except that one is hidden and the other is not?

Mr. TOMPKINS: Mr. Slaght, I wonder if you would allow me to interject for a moment?

Mr. SLAGHT: Yes.

Mr. TOMPKINS: We made it quite plain by the exhibit that was filed in the early stages of these proceedings that a very substantial amount of the published reserves consists of capital which was put into the business of the banks by the shareholders. I think it is wholly wrong on your part, if I may say so with

great respect, and without any intention of being offensive at all, when you have repeatedly referred to these reserves as something that have accumulated out of profits. A very substantial portion, almost \$70,000,000 of that total, was put into the reserve funds in the form of additional capital, capital issued by the banks at a premium, and it is shareholders' capital just as much as the capital accounts of the banks.

Mr. SLAGHT: Very well. How did the balance get into the disclosed reserves if it did not come out of earnings and profits?

Mr. TOMPKINS: A certain other amount went into those reserves from ploughing back, to use that expression, of profits in the same sense that other businesses do the same thing.

Mr. SLAGHT: Quite so. I am not complaining. I am commending the creation of reserves by bankers.

Mr. TOMPKINS: What I simply wished to make plain was that you are trying to draw an analogy between two types of reserves that are not wholly comparable in that respect.

Mr. SLAGHT: In that respect. Then in so far as the portion of them that comes out of annual earnings is concerned, they are comparable in exactly the same way.

Hon. Mr. HANSON: Oh, no.

Mr. TOMPKINS: Except that, of course, to the extent that they go to the reserve out of profits, they are certainly taxed in the ordinary course.

Hon. Mr. HANSON: Certainly.

By Mr. Slaght:

Q. Then, Mr. Jackson, to go back to the inner reserves, why do you suggest it would create any difficulty or harm if the banks disclosed the amount of their inner reserves to their shareholders and to parliament?—A. I said yesterday that I feared if they did that they would lose their sense of freedom to serve the country as they should in a time of crisis.

Q. Lose their sense of freedom?—A. The phraseology I used, if I remember it rightly, was that they could afford to do this but Canada could not afford it. If Canada did that, too many people would lose their jobs in a crisis.

Hon. Mr. HANSON: The sense of security.

By Mr. Slaght:

Q. You mean that to hide things from the shareholders and the public creates greater confidence that to put all the cards on the table?—A. There are many things, Mr. Slaght, that I do not understand; and I do not think it necessary that I should be told a lot of things that I might misunderstand. I think that is a fair statement to be made in regard to shareholders or the public generally. If the publication of certain facts in a certain form is likely to mislead large numbers of people at a time when the public mind is very much disturbed—

Q. How would—

The CHAIRMAN: Please, Mr. Slaght, allow Mr. Jackson to complete his sentence.

The WITNESS: I would regret publication.

By Mr. Slaght:

Q. How would it mislead anybody, Mr. Jackson?—A. I do not know whether Mr. Slaght was present yesterday afternoon.

Q. Yes, I heard you all yesterday.—A. I am sorry I did not succeed in making myself clear. I took the case, hypothetically, of two banks, of which

one is conscientiously and deliberately trying, in a time of crisis, to be a good citizen of Canada and is deliberately incurring losses by carrying its borrowers through, and the other is much more cautious and is therefore not so disposed to take losses in the interests of the country.

By Mr. Jaques:

Q. Is more thrifty?—A. The word "thrift" is a very dangerous word.

Mr. TOMPKINS: Is less venturesome.

The WITNESS: Less venturesome, yes; thank you. The first bank, the good servant of Canada, deliberately takes large losses in a period of years in a long-drawn-out depression. The other bank, the less good servant of Canada, avoids such losses.

By Hon. Mr. Hanson:

Q. "Risks" is a better term.—A. I used the word "losses".

By Mr. Slaght:

Q. Are you pointing to that difference between any two of our ten chartered banks? Are you saying that we have a chartered bank that is a bad servant of Canada?—A. No. We have no chartered bank that is a bad servant of Canada.

Mr. MACDONALD (*Brantford*): The question should be answered, Mr. Chairman.

By Mr. Slaght:

Q. Go ahead, if you are not through, Mr. Jackson.—A. I am supposing two chartered banks merely for the purpose of illustrating the point.

Q. You have made your view clear.

The CHAIRMAN: Please, Mr. Slaght.

The WITNESS: The Federation which I represent is under the impression that all the banks in Canada are good servants of Canada. I am not referring to something that has happened. In the case of our two suppositious banks, of which one is being a good servant of Canada and the other is not being such a good servant of Canada, if there were no inside reserves, if all reserves were to be published, then under the worst of the strain, it might appear to the public that Bank A had taken very considerable losses and the public might draw the conclusion from that that Bank A was badly run. It might appear to the public that Bank B had taken little or no losses and the public might very reasonably conclude, from that one fact that the heads of Bank B were wonderful bankers, whereas in fact they were not being wonderful bankers, they were being bad bankers.

We must remember that the public is in a position any day to close any bank. All that the public has to do is to lose confidence in a bank and withdraw its deposits, and sooner or later that bank must close its doors. I want to protect the bank that is a good servant of Canada; and in order to protect that bank and enable it to continue to be a good servant, we should permit inside reserves.

By Mr. Slaght:

Q. Having told me that, may I ask you this? If the Minister of Finance or Mr. Tompkins, both of whom know the secret, disclose to this committee of parliament not anything of the hidden reserves of Bank A or Bank B, or any invidious comparisons, but disclose to parliament this year, being one year in ten, the total amount of the hidden reserves that the ten banks have piled up

in the aggregate, your reasoning about injuring Bank A or B all disappears into thin air, does it not, as far as that disclosure is concerned?

Hon. Mr. ILSLEY: It does not.

The WITNESS: I still think that if you start publishing facts about inner reserves, you are liable to disturb rather than strengthen confidence.

By Mr. Slaght:

Q. I see. Is there any other answer you can make to my suggestion that parliament has a right to know and ought to know once in ten years the total aggregate amount that the banks have hidden in inner reserves? Is there any other reason than the one you just gave against that disclosure?—A. All I can say is that if I were a member of parliament, I would vote against it.

Q. You would vote against it?—A. Yes.

Q. Well, you have a lot of supporters here. Let me turn for a moment to whether or not, under our present system, the private banks create money; and by money you can take it from me I mean the medium of exchange. Do they create it?—A. Only within the very narrow limits that the cash percentage actually varies from time to time.

Q. Well, let us consider what you mean by that. What would you say to this question? I suggest that a banker can purchase a dominion government bond by accepting from the government a bond for \$1,000 and giving to the government a deposit in the bank for \$1,000. That is right, is it not?—A. Yes.

Q. And what the government receives is a credit entry in the banker's books showing the banker as a debtor to the government to the extent of \$1,000. That is correct?—A. Yes.

Q. And in law all the bank has to hold in the way of cash to issue that deposit liability is 5 per cent?—A. Yes.

Q. That is correct?—A. Yes.

Q. Why do you say "in a limited way", because the banks have used that power to create \$2,700,000,000, although their capital is \$145,500,000 and their disclosed reserve is \$136,000,000. Why do you say it is a limited power when they have outstanding deposits which they have created under that power to the extent of four or five billion dollars all told? What is there limited about that?—A. The limitation comes in the sense that the Central Bank governs absolutely the expansion of their liabilities. If the Central Bank wishes them to expand their liabilities, it can initiate forces as a result of which their liabilities will be expanded; but the thing is entirely in the hands of the Central Bank.

Q. Do you agree that 90 or 95 per cent of our medium of exchange consists of bank credits to-day?—A. That is a statistical fact.

Q. And 5 or 10 per cent is in coin and paper money?

Mr. McGEER: National currency.

Mr. SLAGHT: National currency, yes.

The WITNESS: Yes.

By Mr. Slaght:

Q. Would you say that a bank deposit or credit at the bank actually is the equivalent of money as a medium of exchange?—A. I think we can treat bank deposits as money for ordinary purposes.

Q. Yes.

Mr. McGEER: That is, for our internal economy.

By Mr. Fraser (Northumberland):

Q. As soon as a cheque is issued against it, it becomes a bill of exchange.—

A. The cheque is not money. The deposit is.

Q. The cheque is taken against the credit?—A. Yes.

By Mr. Slaght:

Q. What would you say to this: each and every time a bank makes a loan or purchase securities, new bank credit is created, new deposits; brand new money of that type is created. Is that not true?—A. Money is being borrowed from the banks and money is being paid in to the banks all day long. I do not want to choplogic on that word "creation." If you like to say, as Mr. Hanson suggested some time ago, that a bank has created a credit in favour of the man to whom they lent, that is a conventional phrase which has long been used. The essential point I want to make is that the amount of money in circulation is an amount which is decided by the Central Bank, although in the working of our system, the Central Bank operates through the chartered banks.

Q. Well, we have heard the figures, shown before the committee, that all the money, that is Bank of Canada money—whether it is currency or bank credit that is outstanding today is \$1,300,000,000; and yet the banks are purchasing securities from Mr. Ilsley to the extent of \$2,700,000,000. Where did they get the balance of the money with which they purchased the government securities? They created it, didn't they?—A. They purchased these securities by paying cash for those securities or undertaking to pay the government cash on demand.

By Mr. Fraser:

Q. Or by creating the credit on their own books?—A. When they undertook to make the payment to him on demand, they created a credit in their books, if you wish to use language in that form.

Q. Which credit then becomes negotiable?—A. In the sense that I can transfer to somebody else the banks' promises to pay me.

Q. So, let us suppose, as the hon. member says, they created \$1,300,000,000 cash, they have really created that on their books—

The CHAIRMAN: A little louder please, Mr. Fraser.

Q. They have simply created on their books a negotiable credit against securities purchased or optioned.—A. For each \$1,000 bond, they have given the Minister of Finance either \$1,000 or their guarantee to pay him a thousand dollars where and when he wants it.

Q. That is, against a cheque?—A. Against his cheque.

Q. Or against my cheque if I decide to sell the securities.—A. The Minister of Finance then possesses a right against a bank which he can transfer to anybody.

Q. But all the bank has done is simply to create a credit on their books available to the previous owners of the securities sold?—A. If they have not paid cash for the securities they have undertaken to pay cash at any time he wants it.

Q. What I am trying to bring out in this point is this; when the hon. member is saying "cash", it is simply a case that the banks are not putting that cash into circulation, they are creating that amount of credit on their own books, available as I said for distribution as required by the owner selling these securities or hypothecating those securities and establishing a negotiable credit; is that correct?—A. I think I should say that I use the word "cash" as meaning legal tender money, to distinguish it from money which is not legal tender. There may be some possible source of confusion there. What the banker does is to provide cash on demand or guarantee that cash will be available on demand on any legitimate claim. I do not know whether that answers your question.

Q. I appreciate the answer but what I am trying to get at is the fact that the hon. member for Parry Sound (Mr. Slaght) has used the word "cash" in connection with the \$1,800,000,000, all that cash is not necessary. What you say is that they have made available the necessary cash to go into circulation

by the purchase of these securities. That is your answer, is it not?—A. They have purchased the securities by giving cash or undertaking to produce the cash in equivalent quantity.

Q. But the cash not being required by any purchaser because it is a matter of the transportation system between the credit of the receiver of the cash, the banks have actually created—they have transferred my credit in the Victory Bond to my account in the bank, so they have the Victory Bond for a year, or the government bond for a year, and I have a credit entry for a year, that credit entry is made available to me in cash if I ask for it; that is correct, is it not?—A. Yes.

Q. But in the course of the banking business and in the course of business generally I do not require to go into and sell the bank \$5,000 or \$10,000 government bonds and say, give me cash; they would put on their books a credit which takes the place of my bond as far as I am concerned and they make that credit available to me as I require it in the conduct of my business.

Mr. McGEER: They are the clearing house doing a job.

By Mr. Fraser:

Q. Well, they establish that credit. It does not, as the hon. member has mentioned several times, apply against the \$145,000,000 of paid up capital. What they do from that point on is to operate on the government security, on my security or somebody else's security and create a credit available to the government or to an individual. So that the matter of taking that security of the government of the people of Canada and putting it into this book and saying to the government and people of Canada, we will make that available to you in cash as you require it. So it is really not a pyramiding of the paid in capital of the banks, it is a clearing house—as the hon. member says—or a retail distribution of the credit of the governing people of Canada. Is that not correct?—A. I am awfully sorry, sir, I do not understand this.

Mr. SLAGHT: Nobody else does.

Mr. FRASER: I guess if that is the consensus of opinion I better sit down.

By Mr. McGeer:

Q. You don't understand that?—A. I do not.

Q. May I just put one question to you?—A. Certainly.

Q. We are not only interested in what the banks do, we are interested in what the government does. When a government uses a bond and exchanges it for credit in the banks just what happens: does not the government exchange its promise to pay with interest which it can meet—that is assuming that our bonds are good—with the banks for a non-interest carrying promise which the banks cannot meet without the assistance of the government?—A. No, sir; no.

By Mr. Slaght:

Q. Let me suggest to you that it is exactly what happens and I will tell you why. The government go to the banks, let us say tomorrow, as Mr. Ilsley has to have some more money that he cannot get in his budget in this year by the two sources, one taxation and the other by the sale of Victory bonds to the public; and he struggles each year, as I understand it, and I quite agree, to endeavour from these two sources to raise the requirements of the country. Now then, the minister goes tomorrow to the banks with \$2 billion worth of Victory Bonds or short-term securities, and they bear interest for longer than two years—take long-term securities, and he puts those through the wicket and the banker locks them up in his vault and credits the Minister of Finance with \$2 billion in money in respect of them, does he not?—A. Yes.

Q. Now, if I was a banker and the Minister of Finance comes the next day—and if you bear in mind that all the Bank of Canada money outstanding today is only \$3 billion—how is the banker going to pay Mr. Ilesley if he comes in and says that he wants the money, if he comes to you; how will the banker pay him that \$2 billion of money?—A. The amazing thing Mr. Slaght is that every time Mr. Ilesley claims a dollar from the bank, that bank promptly produces a dollar. That is one of the glories of this country.

Mr. SLAGHT: I am not going to let you answer my question that way.

Mr. MACDONALD: But he must be allowed to answer your question; whether you approve of it or not is another matter.

Mr. SLAGHT: Were you through then?

Mr. McCANN: The answer is that it is never all wanted at the same time.

Mr. SLAGHT: I beg your pardon?

Mr. McCANN: The answer to that is that it is never all wanted at the same time; if the money were all wanted at one time it would be a different proposition.

Mr. SLAGHT: And the banks could not pay it without the help of the government if it were all wanted at the one time.

Hon. Mr. HANSON: The answer is that the banks would not make the loans all at one time so your hypothetical case falls to the ground.

Mr. SLAGHT: Now we are getting a little help; I would like to have Mr. Jackson's answer.

Hon. Mr. ILSLEY: I just want to correct one apparent assumption; that is that the government sells Victory Bonds, or rather 3 per cent long term bonds, to the banks; they do not.

Mr. SLAGHT: They print that, they used to.

Hon. Mr. ILSLEY: Oh no, they never did.

Mr. SLAGHT: Before your regime, they did, I remember they did around the period of the last war.

Hon. Mr. ILSLEY: Oh, that may be, but they do not now.

The CHAIRMAN: Please, Mr. Slaght: I wish to call your attention to another matter, one that came up before, when you said just a minute ago that you would not allow Mr. Jackson to give you an answer in that way; it seems to me when we have a witness before us that as a matter of courtesy and everything else the answer of the witness should be accepted, then if you do not agree with it, that is your privilege.

Mr. SLAGHT: As soon as he answer the question, of course, I will accept it; but he has not.

The CHAIRMAN: Oh now, wait a minute; you yourself said that he could not answer it that way, which implies that he had answered your question.

Hon. Mr. HANSON: And of course it is a well-known rule of practice that the cross-examiner must take the answer for what it is worth.

By Mr. Slaght:

Q. Well then, Mr. Jackson, if the minister deposited to-day securities bearing interest which interest is paid by the taxpayers with the chartered banks and they set up a credit—

The CHAIRMAN: Order, please, gentlemen.

Q. —and they set up a credit of \$2 billion for him and he desires to use that in the next week I suggest to you that he could not possibly pay his cheques with that amount, what do you say?—A. I know that no bank would undertake to make any payment to Mr. Ilesley at any point of time, unless that bank was absolutely sure that it could make payment.

Q. Now do you approve of this, and I am reading from Mr. Graham Towers' statement to the committee; when a million dollars worth of bonds is presented by the government to the bank a million dollars of new money or the equivalent is created; Mr. Towers—yes; is it not a fact that a million dollars of new money is created; Mr. Towers, that is right. Do you agree with that making new money the equivalent medium of exchange?—A. I am sorry; not knowing the context I cannot very well agree or disagree with that statement. I am prepared to take the responsibility for my own statements; but not for anyone else's which are pulled out of their context.

Q. Then you could not agree or disagree with that. Then I put it to you this way; supposing Mr. Ilsley takes two separate bonds of \$1 million each, or government securities in any form, by bearing interest always, and he goes to a chartered bank with one of them and the bank takes the security and locks it up and they credit him with \$1 million, do they not, in practice?—A. Yes.

Q. Now we take the other security to the Bank of Canada and they accept it and the Bank of Canada credit him with \$1 million, do they not?—A. Yes.

Q. In the one case he pays no interest to the Bank of Canada at all or if he does pay it, it is paid to the taxpayers because the taxpayers own the Bank of Canada; you agree with that?—A. I agree that the Bank of Canada is publicly owned and the chartered banks are privately owned.

Q. Quite so. Now, will you tell me why, when the government wants money for government purposes they should not go to the Bank of Canada and secure interest free instead of going to the chartered banks and creating a debt which runs on down through the years at a cost to the taxpayer; why, why do that?—A. I think, Mr. Slaght, some of this discussion leaves out the fundamental purpose actuating the government, which is to have an efficiently working economy. I can imagine ways in which the government might do things a little more cheaply than it does and I can imagine ways in which the banks might earn a little more than they earn. I can imagine all sorts of ways in which somebody might make a little more money or might make a little less money. But our fundamental object, your fundamental object as a member of parliament surely is to see that we have an economy which works as smoothly and as efficiently as possible; that is your duty to the people of Canada. Now, if we were to finance through the Bank of Canada as you suggest we should be loosing inflationary forces far more dangerous and disadvantageous to us than any advantage we would get by saving a few dollars to the country through this "free" financing.

By Mr. McGeer:

Q. May I just ask you one question there; surely you will agree with this statement—and I quote from the statement by the Minister of Finance, page 4270 of *Hansard* of July 15, 1942:—

The second method that I mentioned is to borrow from the chartered banks. I go to some bank and ask them to let the government have \$100,000. If I followed what the hon. gentleman said, the government would be doing just exactly what the hon. gentleman say they would do. They simply credit the government with \$100,000 and the total of the bank deposits of the country have increased by \$100,000. In other words, that transaction results in there being in existence \$100,000 more new money than there was if I had borrowed from my hon. friend. To that extent it is \$100,000 more inflationary in its effect than the other method.

You agree with that, do you not?—A. I am sorry, but again we have a long statement out of context with a reference to Mr. Ilsley's unknown hon. friend I cannot answer that question because I do not understand the basis of it.

Q. Do you agree or disagree with the facts declared there? I do not think there is any other portion of that speech that governs the facts that are stated there?—A. I should like to have a question that I may agree or disagree with.

Hon. Mr. ILSLEY: I think you are correct, Mr. McGeer, but you are talking about a different matter than the matter which Mr. Slaght is talking about. I am talking there about the relative inflationary effect of borrowing from the chartered banks and borrowing from the public. Mr. Slaght is talking about the relative inflationary effects of borrowing from the chartered banks and borrowing from the Bank of Canada.

Mr. McGEER: I do not want to interrupt—

Hon. Mr. ILSLEY: I think if you will complete that you will see I take the two stages which I have always done consistently through the years.

Mr. McGEER: I am not complaining about that, but what I am stating here is a plain statement of fact which I think we have all agreed on. Certainly Mr. Towers has agreed with us on that, that when the government borrows from the banks the banks increase their deposits and create the amount as new medium of exchange in circulation in the country, and to that extent it is inflationary.

Hon. Mr. ILSLEY: I certainly agree.

Mr. McGEER: You agree with that?

Hon. Mr. ILSLEY: Yes.

Mr. McGEER: I understood the dispute between Mr. Jackson and Mr. Slaght was on whether or not the banks created new money when they made a loan to the government, and I think you have agreed, as I think Mr. Towers and all of us have agreed, that they do. Do you disagree with that?

The WITNESS: In respect to that isolated action the banks have, to use a phrase we have used before, created a credit in favour of the Minister of Finance, but what they have undertaken to do is to provide him with cash at a time and place designated by him, and he is certainly going to use the cash, and they have only been able to create that money—

By Mr. McGeer:

Q. He would not borrow it—

The CHAIRMAN: Please, Mr. McGeer.

The WITNESS: —they have only been able to create that money, if you wish to use the phrase, because they have so managed their institution that they are going to be able to produce the cash at any time and in any place in the quantity designated by Mr. Isley. The thing I want to insist on, Mr. McGeer, is that the banks are in the business of dealing with cash, and the day that any bank failed to meet any demand for \$1 of cash anywhere, that bank would have to close its doors. We obscure that fact when we talk all the time about credit; we are talking about institutions which are dealers in cash.

By Mr. McGeer:

Q. To come back after that dissertation do you or do you not agree with the facts as stated by Mr. Isley in the statement I have read to you?—A. I am afraid I do not understand the conditions well enough to agree or disagree.

Q. If you want to leave it there as a consultant, and as a former economic expert or employee of the Bank of Nova Scotia—

The CHAIRMAN: Please, Mr. McGeer.

Mr. McGEER: Just a minute, Mr. Chairman.

The CHAIRMAN: That is unfair.

By Mr. McGeer:

Q. Let me put it this way. If, as a former employee of the Bank of England and a former economic employee of the Bank of Nova Scotia, you wish to leave your answer in that form it is satisfactory to me.

The CHAIRMAN: Mr. Slaght, you have the floor.

The WITNESS: May I just add one word before Mr. Slaght's next question? I would like to be allowed to say that as a consultant I always insist that my clients state their questions clearly, before I try to give them advice.

Mr. McGEER: I repeated the question to you from the statement of the Minister of Finance.

By Mr. Slaght:

Q. I think, Mr. Jackson, when I stopped I had asked you in the instance I made of the two million dollar loans that the Minister of Finance required why he should not secure both his loans from the Bank of Canada without creating any debt load instead of going to the chartered banks for part of it and creating interest for the future. You told me, as I understood you, that that would let loose inflationary forces. Now, I suggest to you that if we amend section 59 of the Act—you say you have read every section—which is the one allowing the banks to lend against a 5 per cent cash reserve, and change that to 100 per cent cash reserve then we could borrow for our government needs from the Bank of Canada without any more inflationary tendency of any kind than you would have borrowing from the chartered banks at interest. What do you say to that?—A. I am afraid I can only answer that question by a question. Does Mr. Slaght want the business of deposit banking to continue in Canada?

Q. Yes?—A. I took the line yesterday with Mr. Macdonald, if I remember rightly—and I think it is a sound statement—that our purpose now is to make sure that Canada has adequate facilities for deposit banking, and that Canadians can exercise those facilities with absolute safety. I might have added we should try to have as economical a system of deposit banking as we can.

Mr. McGEER: Maybe fewer banks would help that?

The WITNESS: I do not know. I am not offering any opinion. I am merely suggesting the primary business of this committee is to see that deposit banking is all right in Canada.

By Mr. Jaques:

Q. Would not 100 per cent make it safer?—A. Would the establishment of a 100 per cent reserve result in there being any deposit banking in this country?

Mr. SLAGHT: Yes, plenty, and I will tell you why. You put the question to me.

The CHAIRMAN: I want to suggest that we allow Mr. Slaght to continue his examination without interruption.

Mr. McGEER: We lose these brilliant thoughts if we let them go too long.

Mr. SLAGHT: I do not mind interruption if they are reasonable.

The CHAIRMAN: They are not always reasonable.

By Mr. Slaght:

Q. You were good enough to ask me the question, do I want the chartered banks to continue business in Canada? I am going to answer that in a sentence or two of detail for you. You may have grasped that my proposal is that we amend section 59 and do not permit the chartered banks to lend to governments unless they have a 100 per cent reserve on which to do so, and your question to me implies that if we made that change the chartered banks could not carry on their business. Is that your imputation?—A. I think that is fair.

Q. The idea being there would not be any money left in the banking business? That is why you say so?—A. The idea being they would be unable to earn the money for their shareholders which would justify their shareholders in running the risks they run.

Q I thought that is what you meant. Then, what would you propose to permit the bankers to continue to do? I am strongly for private banks carrying on the commercial banking business of the country. There has been no secret about that, and this is what I suggest they could carry on and carry on luxuriously as far as shareholders and dividends are concerned. I will put it to you. Let them lend at 4, 5 and 6 per cent first the equivalent of their capital, \$145,500,000. That is what they got together to start business on and to start lending, was it not? Then, let them lend to the extent they have piled up reserves, \$136,000,000 more. On their own figures they have \$70,000,000 invested in building all of which are paid for.

Mr. McGEER: No, they are not all paid for.

By Mr. Slaght:

Q. We will leave that out. Leave out the buildings. Mr. Towers did not want bank buildings in, but I am bound to be more liberal than these gentlemen want me to be. I will tell you what I would suggest that the banks should be allowed to continue to do, and then you will have my story. We have taken the capital, we have taken their reserve. Let them lend it over and over and over again every three months at 4, 5 and 6 per cent. That is one thing. Then, they have got savings bank deposits, called time deposits, to the extent of about \$1,800,000,000 as of to-day. That is an approximate figure we have had in the record. With the more than \$200,000,000 I would permit them to lend at 4, 5 and 6 per cent over and over again every three months and the equivalent of the time deposits they have on their books now, that gives them more than 2 billion dollars of money to go on lending again and again on a capital of \$145,500,000. Do you suggest that a banking business carried on in that manner could not be carried on profitably?—A. If you are going to allow the banks to lend more than they actually are able to lend now I am not quite sure what your proposal is. I do not want to fence with you. I only want to be quite sure I understand.

Q. I am sorry I did not make clear to you what I would say they ought to be permitted to lend, but my proposal would curb them creating new money by pen and ink entries, as they do now, and lending it to the government of Canada at interest. It would stop that, but I put it again to you that if we permit the banks to lend the equivalent of their capital, \$145,500,000, their reserves, \$136,000,000, and the equivalent of their savings deposits, \$1,800,000,000, or more than \$2 billion, they can go on lending that amount of money and make a good profit?—A. I do not see them making loans by pen and ink entries now, Mr. Slaght. I see them undertaking to provide people with cash, and providing it.

Q. Leave that out of it then.

Mr. FRASER (Northumberland): The witness does not understand you.

Mr. SLAGHT: He has not been here long enough, but I do not want to get off on that now. I should like you to tell me whether you are going to say solemnly to the committee that permitting the banks to carry on business in the way I have just outlined would result in non-profitable business for the banks?

—A. What reserve are they to maintain?

Q. They have the reserves which they are maintaining, and I permit them as far as my idea to continue to maintain reserves just as they have in the past but disclosed and not to hide the inner reserve.—A. I apologize. I meant cash reserve, what cash reserve are they to maintain?

Q. They would have the security there of the savings deposits and their capital originally invested. Allow them to lend up to \$2 billion.

Hon. Mr. HANSON: He means would you keep them at 10 per cent?

The WITNESS: You are trying to amend section 59. What are you going to do with it?

By Mr. Slaght:

Q. If I have my way I am going to prevent them under section 59 from lending against demand loans, from creating new loans for demand loans or purchases of bonds unless they have 100 per cent, but permitting them without a reserve other than the present reserve to go on lending up to \$2 billion. You have not expressed yourself that you are solemnly telling this committee that would be unprofitable banking business. Can you do it now?—A. I do not know whether I was right in making that statement but I have not yet got it quite clear. They are going to be allowed to lend as they now do up to \$2 billion?

Q. Yes.—A. After they have loaned \$2 billion they have to maintain 100 per cent cash reserve against any excess in their loans?

Q. That is right with this variation that if the savings account fluctuates down from \$1,800,000,000 to \$1,700,000,000 or rises from \$1,800,000,000 to \$1,900,000,000 then their power to lend would fluctuate along with that. You understand?—A. I may have got you wrong because I rather tremble to think this is what is being put to me. But as it seems to me, you are saying that after the banks have loaned twice as much as they have now loaned you want to apply a rather drastic rule to them?

Q. I am afraid you do not know what they have now lent.—A. I shall not quote from memory the amount of their loans, but I think it is probably something in the neighbourhood of \$900 million or \$1 billion.

Q. Yes.—A. Now, they can lend \$2 billion, twice what they have now lent, and when they get beyond the level of twice their present loans you want to apply a very drastic reserve provision against them?

Q. Right.—A. I think it is so improbable that the banks are going to lend \$2 billion in the near future that if you make that regulation it might have no practical effect whatever, to my mind.

Q. That is encouraging.—A. But if the making of that regulation were to hamper the power of the banks to make loans to the people of Canada—and I speak here for a considerable section of them—I should very deeply regret it. I am certain that the people for whom I speak would oppose it.

Q. I thank you for that, because it goes a long way in my view that the banks would lose, and it would be something that they would lose the interest that they now collect each year on \$2,700,000,000 of securities which interest is about \$40 million—a low rate, Mr. Towers told us—and the tax-payers will pay that \$40 million of interest now because the banks have those securities locked up in their vaults. They would lose that?—A. No, I am talking about limiting the banks' powers to lend money; I am not talking about securities. What you want to do—and I do not want to put words into your mouth—is to pay the banks cash for their securities, is that it?

Q. Well, leave it at that. I have not suggested any such thing. Let us not mix the two things?—A. Securities seems to be the centre of this discussion, but I must have clear in my mind what you are trying to do with the securities.

Q. I am trying to prevent further securities being issued with taxpayers' obligations for interest attached to them being sold to the private banks. I am for selling them to the public where we can, and when we come to a place where we cannot sell any more to the public then our minister has been forced to go and borrow—and he has gone in part, I can tell you—in the last six years he has borrowed nearly a billion dollars interest free from the Bank of Canada, and he has borrowed \$2,700,000,000—not all of it, most of it, in the past few years, due to the needs of the war. Now, I have two points and you have hit them both: stop the government borrowing at interest from the chartered banks for government expenditures and needs in war or in peace time.

Mr. FRASER (*Northumberland*): What would you do with the depositors' money?

Mr. SLAGHT: With what? With the depositors' money? Leave that just where it is now.

Mr. FRASER (*Northumberland*): Let it lie there and the banks pay interest on the savings?

Mr. SLAGHT: What depositors' money? Now, I do not want to get off this point if you do not mind. I shall be glad to submit to questions from you in a moment. If I had my way the two amendments I have proposed to section 59, it would operate to that extent against the banks, and while they have now—I do not suppose we could take it away from them—\$2,700,000,000 of government obligations on which we have got to pay interest practically for our lifetime, this means they would lose that in the future; we would not increase that government debt to the private banks any more for the future.

Mr. MACDONALD (*Brantford*): I think that question should be answered: do the banks lose it or do the depositors lose it?

Mr. SLAGHT: Don't be silly. The depositors don't lose it; the shareholders might lose the interest on it.

The WITNESS: The banks bought this \$2,700,000,000 with money.

By Mr. SLAGHT:

Q. What kind of money?—A. With the presentation of legal tender money whenever it was demanded.

Q. There is not that much legal tender money in the world; there is only \$2,300,000,000 in the world?—A. It circulates. It is turned over and over again, Mr. Slaght.

Hon. Mr. ILSLEY: Mr. Slaght, I have always understood that you had two proposals: the proposal that the government should not in the future borrow anything from the chartered banks; but to the extent that they do resort to bank borrowing to do all their bank borrowing from the Bank of Canada. That is one point. That is the one you have stated now.

Mr. SLAGHT: Yes.

Hon. Mr. ILSLEY: I understood you had another proposal that we take away from the chartered banks the \$2,700,000,000 worth of government securities that they have or are alleged to have—I think it would probably be correct to say that they have at the present time.

Mr. SLAGHT: I have not pressed that. My position here when I get a chance to state it on section 59 is very simple: it is that we quit government borrowing from private banks for all time to come.

Hon. Mr. ILSLEY: From now on?

Mr. SLAGHT: From now on.

Mr. MACDONALD (*Brantford*): Do I understand that the repayment of the \$2,700,000,000 by the banks is withdrawn?

Mr. McGEER: No, no. Mr. Slaght may be withdrawing it, but I am not.

Mr. SLAGHT: I am not pressing it just now; but my amendment does not provide for withdrawing it—my amendment to section 59 does not intend to force the withdrawal of it. That is a matter to be considered for the future.

By Mr. Slaght:

Q. Mr. Jackson, you understand that first proposal of mine that we quit borrowing from the private banks and borrow from the Bank of Canada for government needs for the future?—A. I understand that.

Q. Will you tell me again in a word why we should not do it, why we should not adopt that course?—A. You are talking now about financing in war time?

Q. No, I am talking about financing in war time and in peace time.

Mr. McGEER: And particularly in the post war period.

Mr. SLAGHT: And particularly in the post war period; and in my judgment, confirmed by Mr. Towers, we cannot look forward hopefully, although we would wish it, in the post war period to even then collecting enough in taxes and borrowing from our people by victory loans to fill the gap of the post war needs, and the Minister of Finance is still going to find a gap to be filled on top of those two sources. So you can take it that my proposal is for war and peace and for ever, as far as this banking system is concerned.

The WITNESS: I hope the minister will not have to go on borrowing indefinitely.

By Mr. Slaght:

Q. We all hope that.—A. And I hope in as far as he has to borrow he will borrow from the public, but if he has to borrow from the banks—which I think is undesirable—I would rather see him borrow from the chartered banks than from the central bank.

Q. Why?—A. Because borrowing from the central bank would be so dangerously inflationary.

Q. But, Mr. Jackson, if we change section 59 to require them to hold 100 per cent reserves then it is not inflationary, I suggest to you—any more inflationary to borrow from the central bank than to borrow from the chartered banks; and I have the Minister of Finance on record that he agrees with me on that.—A. Is not the whole thing like burning the house down, in order to cook the breakfast bacon?

Q. Well, I frankly do not understand your allegory. Would you mind answering the question free from allegory? I think it is pleasant to have an allegory every now and then, but leave the breakfast bacon out and tell me why we should go on piling a debt against the taxpayers of Canada when we can without any more inflationary methods by altering section 59 secure the money interest free from the Bank of Canada? Now, give Mr. Jackson's answer in this committee, because we are going to take this matter up in parliament too, and I would like to quote you in parliament to show where I differ from you.—A. We are not piling up debt charges on the taxpayer in this mysterious way, so far as I can see.

Q. We are not?—A. No. At one time or another the banks have bought \$2,700,000,000 of securities.

Q. Yes, in the last six years.—A. At one time or another the public have bought a large amount of securities too. The public and the banks have bought securities with the same kind of money. If I buy \$1,000 worth of government bonds I pay by cheque, and it is exactly the same method of payment as if the minister sells worth of \$1,000 bonds to the bank.

Q. You have got the money there.—A. And so has the bank. The bank has undertaken, when it has bought the bond, to pay Mr. Ilsley \$1,000 any time, and at any place where he wants it. I write a cheque and instruct the bank to do the same thing on my behalf when I purchase a bond. The money is the same.

By Mr. McGeer:

Q. There is a transfer from your deposit and there is no increase and no new money; with the banks there is an increase?—A. If the banker had not continued to receive money from the depositors of this country all the time he could not have ^{and} bought \$2,700,000,000 of bonds.

Q. Why not?

Mr. SLAGHT: Let us get back to my question.

By Mr. Slaght:

Q. Will you give us your reason why we should continue paying for government needs through the private banks and not through the Bank of Canada after amending section 59?—A. I wonder whether the simplest way of stating my point is to say that it would be a national disaster to amend section 59 as you want.

Q. Now, we are getting somewhere.—A. It would be a national disaster to amend section 59 as Mr. Slaght wants to amend it.

Q. Help us a little more; a national disaster would be created—

Hon. Mr. HANSON: Ask him why?

Mr. SLAGHT: Yes, why?

The WITNESS: I may have got Mr. Slaght's idea wrong; I am in great danger of getting these questions wrong all the time, I am sorry to say—but as I understand things, you would amend section 59 by striking out 5 per cent and putting in 100 per cent?

Mr. SLAGHT: Right.

Hon. Mr. ILSLEY: No, Mr. Slaght. I am trying to get your position clear: I think only to the extent that the deposits are increased by the additional borrowing from the Bank of Canada.

Mr. SLAGHT: No, no; with regard, sir, to the creation of loans by book-keeping entries for demand loans to depositors who can then cheque against them. My amendment reads this way: "That section 59 of bill 91 be amended by striking out in the second line the word "five" and substituting therefor the words "one hundred", and by inserting before the word "deposit" in the third line thereof the word "demand". You see what that effects?

The WITNESS: I would vote against that, sir.

By Mr. Slaght:

Q. I know you would; and you venture the remark that it would be a national disaster, but you have not told us why, and Mr. Hanson wants to know?—A. It would be a national disaster to the extent that it would restrict the bank's ability to serve the public.

Q. To serve the public?—A. Yes.

Q. How? They have loaned now about \$900 million to the public. I am allowing them, under my system—I do not want to use the word "I"—but under the system I suggest they would have the right to serve the public up to \$2 billion.

Mr. FRASER (Northumberland): If the public would borrow it.

Mr. SLAGHT: If the public would borrow it; and the witness thinks that the public would not want that much.

The WITNESS: I have not got the text of your amendment in front of me. You are going to put the word "100 per cent" instead of "5 per cent", and you are going to add the word "demand" before "deposit liabilities" in the third line?

By Mr. Slaght:

Q. Yes.—A. That is all on that?

Q. That is all on that?—A. You have a second amendment.

Q. Perhaps I had better show you that. Will you read it aloud?—A. "That a new section (2) be added to section 59 to read as follows:

that the bank shall not make loans to the government of the Dominion of Canada or any department thereof."

Q. Right. The private banks shall not make loans to the government of the Dominion of Canada or any department thereof. Those are the two proposals. Where is the national disaster coming from?—A. Through the restriction you are placing on the banks in the first resolution.

Q. How?—A. This business of deposit banking, Mr. Slaght, is a very vital thing for the whole country. I would like, if I might, to drop banks for the moment and talk about the matter as a transaction between you and me.

Q. I do not think that will help, but if you want to do so, go ahead?—A. I am free, if you want me to lend you \$1,000, to lend \$1,000.

Q. And you are able to do it?—A. I am able to do it even if I haven't got the thousand dollars in the bank at the present moment. That is to say, I can sell a bond which pays me a lower interest rate than what you will pay me, thus providing myself with the cash in order to honour your demand.

Q. May I suggest a third way: you could borrow it from somebody at \$1.50—a year's interest—and lend it to me at \$6 or \$7?—A. If I were in the business of deposit banking, which I am not, I could borrow on demand from the public.

By Mr. Jaques:

Q. You cannot lend it—you cannot lend your deposits?—A. I cannot lend my deposits, but I can lend the money which the depositor leaves with me.

By Mr. Slaght:

Q. Let us go ahead now. You are in an allegory between you and me instead of sticking to the proposal as to why there would be a disaster if the banks did that?—A. I am going to explain that. I maintain for my own convenience a certain proportion of my valuables in the form of cash. If I want to make a loan which is more than my cash, I can replenish my cash by pushing around other assets.

Q. Do you mean selling them?—A. By selling them.

Hon. Mr. HANSON: Or hocking them.

Mr. SLAGHT: Yes.

The WITNESS: We all of us maintain for convenience a more or less customary cash reserve.

Mr. SLAGHT: You flatter me in that respect.

Mr. NOSEWORTHY: Or try to.

Mr. MACDONALD (*Brantford*): Let us have the answer.

Mr. SLAGHT: Yes.

The WITNESS: You may vary your cash reserve and I may vary my cash reserve, but the public as a whole maintains a fairly constant proportion of its assets in the form of cash for the convenience of doing business. The banks do exactly the same thing. The bank is not in any different position from anybody else—there is no mystery about it—except for the fact that they do take deposits which I am forbidden to do. Meanwhile, the country as a whole has to finance its business operations, and most of its business operations must be financed by going to the banks; and it is essential that any credit-worthy business man in Canada should be able to go to his bank, at any time, knowing that his bank can and will take care of his credit needs. The bank would not possess that freedom if you put in the 100 per cent provision instead of leaving the convenience of the banker to dictate that he keep 10 per cent.

By Mr. Slaght:

Q. Suppose we let some more gentlemen go into the banking business, put up their good money and lend it out at 6 and 7 per cent to ease the public need. If the present banks, ten in number, could not take care of the loan requirements of the public,—and you tell me that it is about \$900,000,000 now and I am offering a leeway of 2 billion—then I suggest to you that new associations of bankers would come into business and find it profitable to lend their money at these higher rates of interest and we would not suffer. I cannot tremble for your national disaster on that score. Is there anything more that supports the national disaster result?

By Hon. Mr. Hanson:

Q. Mr. Jackson, may I offer this suggestion, rashly perhaps, that Mr. Slaght's proposal would destroy the deposit structure.—A. I think it would.

Q. I think so too.—A. Do you want to raise the cost of banking to the public, Mr. Slaght?

By Mr. Slaght:

Q. No.—A. You came very near to suggesting it a moment ago, I think.

Q. Well, I do not think so.

By Mr. Fraser (Northumberland):

Q. Mr. Jackson, you remove the service there. It would be impossible for the public to get the service from the banks that they are now getting?—A. As I see it, this is the situation. The banks in the sum of all their operations, meeting all their costs, are earning a certain return for the shareholders. The figures have been put on record in this committee, and it is a fairly modest return.

I manage a small company which is not in the banking business. It is in a very much safer business than banking and it is of much less service to Canada than if it were a bank. I can with considerable safety make higher earnings than the average bank. I do not run the risk which the bank does.

We cannot expect our banking system to grow parallel with Canada's needs, and to secure accretions of capital from the public, unless we put our banking system in a position in which it can make earnings commensurate with the risks which the banks run.

We want at the same time to make available the services of the banker as cheaply as possible to the public. My clients, if I may refer to them at this late stage of the business, are business men; my clients do not want the banking system put in a position which would result in an increase in the cost of banking. I think they will oppose this amendment on principle.

I personally think that this amendment, if passed, would in a dangerous degree lessen the banks' ability to service the public. Perhaps I may have been precipitate, in picking the phrase "national disaster". I have not, after all, had the time that I would have liked, to take in this proposal.

MR. SLAGHT: I would be glad if you would wish to tone that down, because it made us as a committee tremble to hear you use that term.

SOME HON. MEMBERS: Don't worry about us.

MR. JAUQUES: The committee don't seem to agree with you.

MR. McGEER: You cheered for it.

THE WITNESS: May I ask a question, Mr. Chairman?

MR. SLAGHT: Yes, go ahead Mr. Jackson.

The WITNESS: Can I leave it like this: I am strongly against tying up the banking system as proposed, but it is possible that I used somewhat strong language when I first referred to this matter.

Mr. SLAGHT: I have no objection to your modifying that phrase at all.

Mr. GRAHAM: Mr. Slaght, might I ask a question?

Mr. SLAGHT: If you don't mind, Mr. Graham, I am just about through.

By Mr. Slaght:

Q. May I take it that it is a good thing for the public that money should not be too scarce; I mean, for the public—there should be available plenty of currency and media of exchange?—A. It is a good thing that money should be neither too scarce nor too plentiful.

Q. And it is a good thing for the banking system, the banks, if money is scarce, because it costs more to borrow it, is that true?—A. I do not understand you.

Q. You do not understand me?—A. No.

Q. Is there anything you want to add to what you have already put down—it is on record and we can read it at leisure—which comes to the fore, as to what would happen—we will not call it “national disaster”, but the evil results —(perhaps you would put it that way) if the two amendments that are suggested were to be made; do you want to add anything more?—A. I do not think I want to add anything, sir.

Hon. Mr. HANSON: The witness has given us two main points in that connection; the second reason you gave was that it would add to the cost of commercial operation?

The WITNESS: Yes.

Hon. Mr. HANSON: And the first one was as I understood it, that it would have the effect of destroying deposit business; that is to say the depositors would not be able to get anything in return on their deposits. They would take their money out and put it in their pockets?

The WITNESS: The banker is in the deposit business voluntarily. He does not have to stay in the deposit business, he might actually make more money quite safely by doing something else. We must not expect him indefinitely to give the banking service which he has given us in Canada during the past hundred years, unless his shareholders and owners are getting a return on their investment, which makes it worth their while.

Mr. FRASER: If he could not use the deposits he would not take them.

Mr. McGEER: Then we would probably have a National Savings Bank such as they have in Australia.

Mr. SLAGHT: Is not Mr. Hanson forgetting—in reply to his suggestion to you—that our government savings bank is paying 2 per cent to those who want to deposit their money with them; you are aware of that, that the postal savings bank of this country pays 2 per cent to depositors?

The WITNESS: Yes.

Mr. SLAGHT: And are you aware of the fact that amongst your clients there are 45 bank collectors?

The WITNESS: No, for I have not counted them.

Mr. SLAGHT: No; well, there are a great many of them, are there not?

The WITNESS: I do not know.

By Mr. Graham:

Q. There is just one question apropos of Mr. Slaght's supposition; am I right, Mr. Jackson, in assuming this, that to the extent that Mr. Slaght's

amendment would apply and that the government borrowed from the Bank of Canada and they take the government money in the form of a cheque and take it to the chartered banks who will use it something like one to ten as deposits for people's money, they then to the extent of that they would have to keep their reserves against that liability?—A. I am sorry, but in switching suddenly from one track of questioning to another, I fear I have not given you my full attention fast enough. Might I have that question again?

Q. Apropos of the discussion between you and Mr. Slaght of the extent that Mr. Slaght's amendment would apply to deposits made in the chartered banks it would prevent them from lending in excess of a certain amount. To the extent it does bring about that result is it not true that the result would be that our chartered banks would have to service these deposits without any chance of getting any income to take care of the expense of servicing these deposits?—A. If you are only going to forbid the banks to do something they would not do anyway merely by setting an upper limit they would never reach you are going to have no effect one way or the other, but if you are going to tie up the operation of deposit banking the banks still have to meet the cost of servicing depositors if they wish to remain in the deposit business.

Q. We would be asking the banks to do what no other institution would dream of doing, perform a very great public service without any hope of being recouped for the cost of doing that service?

Mr. SLAGHT: Nobody ever suggested that. You know right well I said the banks should charge a service charge to the people to whom they render the service. There are 6,500,000 in people who never had a bank account in their life.

Mr. GRAHAM: Would you mean then that we just transfer who pays the cost of doing that service?

Mr. SLAGHT: Certainly; let the man who gets the benefit pay the charge.

Mr. McGEER: Mr. Chairman, there is a very important—

Mr. GRAHAM: Mr. McGeer, I am not through. I wanted to meet Mr. Slaght's suggestion. Coming down to Mr. Slaght's suggestion all he is doing is transferring the right to lend certain moneys or certain portions of the bank deposits at the rates of interest we determine under the Bank Act and transferring the cost of the service to the depositors and to the other people using the bank so as to bring in a like revenue?

Mr. SLAGHT: Certainly; I have made that clear all the way.

Mr. McGEER: We have a very important document here, and I certainly want to get Mr. Jackson's explanation of it because it is headed, "Sidelights of the Great Depression". I want to examine on that document.

The CHAIRMAN: As to our next meeting we endeavoured to ensure that the Minister of Finance was with us this morning. Unfortunately we have not been able to take up the matter in which he was particularly interested, namely, his amendment. The Minister of Finance finds it impossible to be here this afternoon. Friday afternoon is not a good afternoon.

Mr. NOSEWORTHY: We can go on with Mr. Jackson.

Mr. GRAHAM: We will not be able to get through with the witness this afternoon.

The CHAIRMAN: I would suggest we adjourn until Monday at 11.30 o'clock.

The committee adjourned at 1.05 o'clock p.m. to meet again on Monday, July 17, 1944, at 11.30 o'clock a.m.

July 17, 1944.

The Standing Committee on Banking and Commerce met this day at 11:30 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: At our adjournment we had Mr. Jackson before us as a witness, and Mr. McGeer expressed a desire to question the witness with regard to certain diagrams that had been filed. Mr. Jackson, will you please come to the stand.

Mr. GILBERT E. JACKSON, recalled.

Mr. SLAGHT: Mr. Chairman, if my friend will permit me, I should like to place in the records of the committee, if the committee will approve, a very brief statement, being a calculation which I have made of consolidations from the Bank of Canada's statistical summary for the month of April-May, 1944, and I have consolidated it in this way: statement of moneys loaned by the private banks including loans in Canada and abroad for certain years from 1926 to 1943 and it includes April 30, 1944. The statement comprises simply three columns, and it is added for convenience. The first column is loans in Canada, beginning with the year 1926, and then 1929 and 1932, which are the years which have been selected by the Bank of Canada. The second column is loans abroad. The third column is the total of the two items. The committee will recall that Mr. Jackson and I discussed the fact that he was fearsome lest the restrictions my amendment might put upon lending would not enable the private banks to service the Canadian people. And in that connection I think this would be useful.

The CHAIRMAN: Is it the pleasure of the committee?

Hon. Mr. HANSON: Has it been checked?

Mr. SLAGHT: I have checked it and my friend can check it by reference—most members of the committee have this schedule B,—to the Bank of Canada's statistical statement for April-May 1944, on page 36—but their each year is separated and all I have done is to take the figures, add them carefully and check them so as to give us a bird's eye quick view of the loans in Canada, of the loans abroad and the total loans for that period.

Mr. CLEAVER: I think it will make it more generally interesting if the Inspector-General of Banks checks it before it is placed on the record.

Mr. McGEER: It can be checked in other ways.

Hon. Mr. HANSON: Does it include the monies loaned to the government?

Mr. SLAGHT: No, these are loans to the private banks and do not include any loans to the government. If my friend (Hon. Mr. Hanson) will consult the statement; I have just taken it from the page indicated and I have just consolidated the securities—

Mr. McGEER: That is in the Bank of Canada report.

Mr. SLAGHT: The assets, then the loans, then the loans in Canada—call, current public and current other; then abroad call and current; and I have put it in a convenient total summary.

Hon. Mr. HANSON: Let us have it checked by the Inspector-General.

Mr. SLAGHT: All right. Had you listened to the examination of Mr. Jackson you would have known what I have done.

The CHAIRMAN: Is it the pleasure of the committee that the exhibit as checked by the Comptroller be printed and placed in the transactions of the committee?

Some Hon. MEMBERS: Carried.

Mr. TOMPKINS: May I say that in the checking of that it may be necessary to have it done by the central bank, it comes from their statement.

The CHAIRMAN: Arrange to have that done.

Gentlemen, I have received a brief from the Workers' Educational Association of Canada, Toronto, dealing with the rate of interest which can be exacted by the banks of Canada on large or small loans and the method by which interest charges are to be quoted to a borrower and computed by a bank. Is it the pleasure of the committee that the brief be printed in our minutes?

Mr. GRAHAM: Mr. McIlraith and I do not know much about the name of that particular organization.

The CHAIRMAN: It is a workers' educational association, it is a well-known organization I think.

Hon. Mr. HANSON: Do you wish to have it included in the minutes?

The CHAIRMAN: I am asking the committee if they desire it to be included.

Mr. McGEER: Should it be checked too?

The CHAIRMAN: So far as I am concerned I think the association has such a standing that we ought to recognize its point of view.

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. McGeer:

By Mr. McGeer:

Q. Now, Dr. Jackson—A. I think it might help, Mr. McGeer—if I confess that I am not a "doctor". I am just a plain "mister" with a plain B.A. degree. I wish this committee were capable of awarding honorary degrees because there is nobody from whom I would more happily accept a doctor's degree than Mr. McGeer.

Mr. McGEER: You didn't correct it the other day and I naturally did not question that the title was yours.

Hon. Mr. HANSON: You haven't lost much by not having it.

Mr. McGEER: Now, Mr. Jackson—

By Mr. McGeer:

Q. —I am sorry that that error has occurred, that you have not been recognized to the extent that I believe you perhaps should have been; but time no doubt will correct that, let us hope it will. Being here as a representative of the Retailers' Association I presume that I am correct in assuming that the Retailers' Association throughout Canada are anxious as we all are that the medium of exchange shall be circulated effectively and efficiently as a buying power of the Canadian people?—A. I think that is a perfectly fair statement.

Q. They are anxious that an old age pensioner, for instance, shall have the means to buy what it can for him in the way of the necessities, comforts and conveniences of life?—A. I am not briefed to express an opinion as to how large the old age pension should be.

Q. I am not talking about that; I am talking about the point of view of the retailers who are ready to act on that, and to go by that?—A. The retailer is most anxious that the old age pensioner's set-up should be good, both for the sake of the old age pensioner and for the sake of business.

Q. And, that it should be adequate; then we will come to the main question, that employment shall be maintained upon the basis that the masses of people can purchase the necessities, comforts and conveniences of life to maintain a reasonable standard of living throughout the dominion; the retailers are interested in that, aren't they?—A. All of us agreed that we should like the Canadian people to live as well as possible.

Q. And we are all somewhat concerned about the problem as it faces us in the very near future, that is the post-war period?—A. Yes.

Q. I presume that you have read Mr. Graham Towers' report of the operations of the Bank of Canada for 1943?—A. Yes.

Q. And as I read that report he raises as a serious and difficult problem, the matter of providing employment for those who are going to be demobilized both from war services and war industries. Now at page 12 of his report he makes this statement— —A. Could I have a copy of that report, please?

The CHAIRMAN: Yes.

By Mr. McGeer:

Q. Start at page 11 under the heading "General" at the bottom of that page.—A. Yes.

Q.

The magnitude of the adjustments which Canada will face in maintaining high employment after the war can be indicated in simple terms. In 1939 about 4,000,000 Canadians were gainfully occupied and at least 300,000 who were available for work were not employed. By the end of 1943 the gainfully occupied population had risen to approximately 5,100,000 but about 1,900,000 of these were engaged in the armed forces, in supplying the weapons of war, or in producing the food required for special wartime exports. The number available to meet civilian needs had therefore fallen to about 3,200,000.

Do you agree with those figures?—A. I imagine they are approximately right. This is the highest authority you can possibly look to.

Q. In your statement of facts in your book you have examined the existing situation, and I think you have found that as far as our standard of living is concerned it is higher to-day, generally speaking, than it has ever been in the history of Canada?—A. I think that is true.

Q. So that at the moment 3,200,000 people engaged in supplying Canadian requirements are sufficiently efficient to provide us with the highest standard of living we have ever enjoyed. I do not know that the reporter can get a nod of your head.—A. If you want me to reply, I was saying "yes". I forgot it had to be recorded.

Q. The Governor of the Bank of Canada agrees with you in that by stating:—

At the same time the average standard of living had risen materially and was probably higher than it had ever been.

He makes this statement:—

This increased output of consumption goods by a smaller working force can be accounted for in part by longer hours of work, favourable crop conditions and the abnormally small number now employed in private capital development and maintenance work. Another important factor, however, has been the improvement in production techniques worked out under the stress of war.

A. Yes.

Q. I venture to say as to the techniques worked out in the improvement of mass production we have had a revolution in Canada that would have taken a great many years of organized peacetime evolution to develop? Some have placed it as high as fifty years of peacetime progress. Do you agree there has been such an improvement?—A. I think it is quite likely. I would not want to dogmatize about it. I would not like to mention any figure like fifty years.

Q. I think we would agree on the word "substantial"? I will agree with the word "substantial" without discussing it further.

Q. I suggest to you that the effect of that industrial progress is twofold. It has proportionately reduced the number of human energy units required to produce what was produced before?—A. In certain lines.

Q. In fact, in many lines; do you not agree with that?—A. I do not know that I am well enough acquainted with the techniques of industry to make a very precise statement on that. I am not trying to disagree with you and I am not trying to whittle you down but I would not like to seem dogmatic.

Q. I hope we can find as much common ground as we can.—A. We are getting a lot of common ground this morning.

Q. As a matter of fact, I am here with no quarrel with anybody. I see a difficult problem ahead and I would like to make a contribution to solving it. I think you are in exactly the same position?—A. Absolutely.

Q. I think you, representing the retailers, and we, as members of this committee representing the people of Canada, have at least a common hope and a common desire. We may disagree as to the methods. The other reaction to this industrial progress is that we have equipped ourselves to produce in Canada much, shall I say, of what we formerly imported?—A. Do you want an answer to that also?

Q. Do you agree with that?—A. I think that is true.

Q. So that in our import and export field, in the department of our external trade, our capacity to produce for ourselves may have the effect of reducing our capacity for export trade?—A. It may have.

Q. That is on the assumption that we are going to be limited in the future more than we have been in the past in our export activities by the amount of imports we can take in exchange?—A. May I ask a question just to clarify a point here?

Q. Yes.—A. Are you suggesting that the war has made us greatly less dependent on export trade than we were before?

Q. No, I am saying to you it has made us less dependent upon import trade and what the repercussions of that will be, of course, remain to be seen?—A. I should like to agree with you that we can make a number of things now which we did import previously. That is a straight statement of fact. What I am puzzled about is the effect of the undoubted expansion in our productive capacity and the undoubted technical improvement in certain lines of production on our general trade relationship with the rest of the world. I do not want to dogmatize about that relationship, but I do not want to be in the position of assenting to any statement that our trade situation has been transformed, when the transformation that has occurred is fundamentally a transformation in the factories, and we do not yet know to what degree the economic position of Canada as a whole has been altered.

Q. I agree, but in any event it is a situation which has developed as a result of this war, and what its effect will be for the future to disclose?—A. Yes.

Q. But assuming that in international trade all countries are going to endeavour to balance their exchanges of goods and services as well as they can, our capacity to serve and supply ourselves with goods that were formerly imported might make the expansion of our foreign trade more difficult?—A.

Again, I am simply trying to find a degree of common ground between us. You are not suggesting that all countries are now going to become more autarchic than they were before?

Q. No, I think more co-operative on an intelligent basis of balancing their exchanges of goods and services?—A. We are agreeing that there is an attempt being made to increase opportunities of reciprocal trade between nations. Am I stating the last point correctly?

Q. Yes, I do not think there is any question about that. I presume that is the purpose of the monetary conference at Bretton Woods. I think we have done a great deal to advance the opportunities of foreign trade through our exchanges of goods under mutual aid and lease-lend, and in the international co-operation that has developed during the war. We have worked out a great many understandings, agreements and arrangements between the united nations that have produced results that could not have been produced in any other way. It may be possible in that field of international co-operation we may find an opportunity for wider expansion, but as we look at the thing from Canada's point of view to-day we are better equipped to supply ourselves with the use of less labour proportionately and the improved capacity of our own industrial power which is increasing. You agree with that?—A. Yes.

Q. Mr. Towers apparently appreciated that situation because he says:

After the war, some of those who are now employed will voluntarily withdraw from the working force, and the armed services may be maintained at a level considerably above their pre-war strength.

It seems likely, however, that at least 4,700,000 workers will be available for employment in civilian jobs, or at least 1,500,000 more than the number employed in that sector of the economy at the present time.

I interpret that to mean that, despite the fact that 3,200,000 people are supplying Canada's domestic needs on a very high standard, higher than we have ever had before, we in Canada are confronted in the post-war period with providing new employment for 1,500,000 of industrial war workers and men and women demobilized from the fighting forces?—A. Accepting the figures that Mr. Towers gives here as being the best obtainable, there is just one qualification I think we ought to make, Mr. McGeer.

Q. Yes?—A. I do not think we should assume that the 1,500,000 that you are talking about are all of them going into the production of goods for civilian consumption. We have had a very severe restriction in the production of certain kinds of capital goods during the war. There are hundreds of thousands of Canadians, for instance, who want new houses today and cannot get them. I am not only inclined to assume but I very strongly hope that a substantial proportion of this 1,500,000 will not be producing goods for direct civilian consumption but will be producing capital goods that we still need. There again I do not think we come into disagreement. I am simply trying to make the situation as clear as I possibly can.

Q. I quite agree. And those who cannot be taken care of in the production of consumption goods and services must be taken care of in a broad expansion of capital investment?—A. Yes. You say "must." We hope they will. May I amend you to that extent?

Q. Yes; and the extent to which they can move into capital investment will depend first upon the accumulation of their savings or upon their employment on a basis to be able to rent such capital investment as may be developed in houses?—A. Well, the extent to which they can be employed in the capital goods industries depends on a very complicated body of factors.

Q. Quite so.—A. I am not sure you are going to get a formula here which is really satisfactory.

Q. I do not think you would.—A. We agree that we want the best employment opportunities for the largest number of people.

Q. Yes. But if you are going to get capital investment in houses, either the people have got to have the money to be able to build them or they have got to have the wages to rent them if they are built out of the accumulation of capital funds from other sources?—A. Yes.

Q. Besides, capital goods include a large variety of things besides houses?—A. Yes.

Q. The development of electricity, rural electrification, the improvement of railways, the building of ships, the development of harbours, the improvement of cities, the building of highways and all that kind of thing is what you would include in the category of capital investment?—A. Yes.

Q. Which includes a broad field of public—that is, dominion, provincial, municipal, corporation and individual activity and enterprise.

Mr. GRAHAM: May I interject there for just a minute, Mr. McGeer?

Mr. McGEER: Yes.

Mr. GRAHAM: I want to elicit something. I want to get my own mind clear in this regard. Mr. McGeer is laying the foundation on the premise that our Canadian people now are being satisfied on a standard of living suitable to them by the labour of those who are presently employed. That is his assumption.

Mr. McGEER: I did not say any such thing.

The WITNESS: I did not take that from what Mr. McGeer said.

Mr. McGEER: And I made no such assumption.

Mr. GRAHAM: I may be wrong.

Mr. McGEER: I should like to be allowed to continue with the examination.

Mr. GRAHAM: I wanted to clear this up.

Mr. McGEER: You interject something which the Professor or myself did not have in mind.

Mr. GRAHAM: I want to make this point. Mr. Jackson is only going to be here today; and I for one hope you will not occupy the whole time of the committee.

Mr. McGEER: If it is a question of interference, Mr. Chairman, I should like to continue with my examination.

Mr. GRAHAM: Mr. Slaght or Mr. McGeer have occupied the whole of the period.

Mr. McGEER: I have not interrupted in the examination of any witness during this whole inquiry.

Hon. Mr. HANSON: Oh, oh!

Mr. McGEER: I interjected when I was permitted to.

Hon. Mr. HANSON: Do you not think that some of those one and a half million who came from agriculture will go back to agriculture?

Mr. McGEER: Well, I am coming to that; because I think that is a very great problem.

Mr. CLEAVER: The agricultural worker today is terribly overworked.

Hon. Mr. HANSON: Some will have to come back.

Mr. McGEER: That is all very well. Let me come to that right now.

By Mr. McGeer:

Q. Mr. Jackson, you know, for instance, that England was always our best customer before the war. You know that during the war there has been an

evolution in the development of agricultural production in England. For instance, it took the first line of defence as the navy, the second the army, the third the air force, and the fourth, home production of agricultural products. Here is what is being advocated now in addition to the increased production that England has developed. Some members of parliament are advocating that, as a matter of government policy, agricultural production in England should be increased as a part of their post-war program to the extent of a billion dollars, two hundred million pounds. You are aware of that situation, are you?—A. I know there are people in England who think that.

Q. And you do know that England's agricultural production during the war has increased very, very substantially?—A. I believe it has, yes.

Mr. JAKES: And for psychological reasons.

By Mr. McGeer:

Q. You do know as well that we supply enormous quantities of agricultural products to England, such as bacon and eggs, that formerly came from Denmark and other European countries?—A. Yes.

Q. And that there will be an effort made on the part of Denmark and those countries that formerly supplied England to re-establish themselves on a basis of supplying England again?—A. Yes.

Q. So that we will have to absorb in our agricultural areas in Canada farmers who are now supplying the deficiency in Great Britain and other places formerly supplied by Europe; and that will mean that unless we can continue our export of agricultural products on the present basis, we may have an over-supply of agricultural production in Canada?—A. I think that demands a closer knowledge of agriculture generally than I possess.

Q. All right. If you have not that knowledge, there is no use of my examining you.—A. I would not like to say "yes" to your last statement; but I still do not want to put myself in disagreement with you, sir.

Q. I mean, I do not want to examine you on something you do not feel qualified to speak about.—A. No.

Q. But I understood from reading your "Facts of the Case" that you probably had made a survey of that particular phase of our economy. I think you will agree with me, Professor, that in planning for the post-war period it at least is one of the factors that we have got to give serious consideration to?—A. I am quite certain that we need to be in a position to dispose of a very large body of farm products abroad. As to how large our normal post-war export of farm products has to be in order to make possible a reasonably balanced and prosperous Canada, I do not know. That seems to me to be one of the great unknowns for the future to settle; but that it will have to be great we can both of us perfectly well see.

Q. I quite agree. So that that hope that automatically a great many of the demobilized people later find opportunities for employment either as farmers or farm labourers is one that cannot be counted on with any definite certainty?—A. When you ask me questions of any kind about agriculture, you tempt me to tread on dangerous ground, because while I have done a lot of things I have not worked on a farm. This is a thing I had far rather talk about over a fireside off the record as a matter of speculation, than here. But I feel disposed to think that if agriculture gets anything like a break after the war (and by that I mean a break through favourable circumstances)—

Mr. GRAHAM: Wider world markets for our agricultural products?

The WITNESS: Reasonably wide. If agriculture gets anything like reasonably wide external markets after the war, I think it will absorb a certain amount

of farm labour eagerly. But if any member challenges any statement that I make about agriculture this morning I fear, sir, that you may find me quite a weak witness.

By Mr. McGeer:

Q. You see, professor, we had a good deal of experience with that hope after the last war. We in British Columbia launched some very extensive soldier settlement farmer programs and they turned out to be extremely disappointing, and we found a condition in agriculture in the post-war period where the whole thing collapsed; and it is to avoid a repetition of that kind of thing that we should be planning now—A. Yes.

Q. —such development as we can foresee?—A. Yes.

Hon. Mr. HANSON: Now, Mr. McGeer, was that not due to economic nationalism in Europe?

Mr. McGEER: To some extent. I think you will find that in Europe, particularly with the spread of power of the Soviet Union and their methods of intensified productive activity internally, and with what took place in India in the way of industrial development, and what took place in Australia and New Zealand, that the whole picture presents a danger of even more intense national preservation than we had after the last war. That may or may not be the right opinion, but as I have examined the facts I think that that is one of the dangers and one of the great problems that have got to be solved, and one in which we in Canada are tremendously and vitally interested.

By Mr. McGeer:

Q. Now, professor, examining the matter from another angle, will you agree with me on this, that the men and women in our armed services who are going to be demobilized are different from an economic point of view than they were in the last war?—A. Would you elaborate that?

Q. Yes. I will take the army first. The majority of the men and women in the army are trained to service a mechanized fighting power. They are highly trained in a highly technical war. I am assuming in that training an individualism which was not present in the last war to anything like the same extent. Would you agree with that?—A. There is no doubt that the soldier in this war is a very much better trained and a more technically competent man than the soldier was in the last war.

Q. And better paid?—A. He does his job better.

Q. He is also better paid?—A. That is a fact.

Q. And better fed?—A. Yes.

Q. And better clothed?—A. Probably.

Q. And better accommodated, and on a higher standard of army living than was enjoyed in the last war?—A. Foxholes are still foxholes, but all your other statements I think are perfectly true.

Q. Now, take the Air Force. These men and women—we did not have more than a handful come home from the last war from that group—they are a highly trained group of men and women, and the problem of bringing them back to be reestablished in Canadian life is an entirely new problem in this war; will you agree with that?—A. I think this, sir, that one of the very greatest unanswered questions at the present moment is how directly serviceable for civilian production the new skills that the men have learned in the services will be. It is an enormously important question, a very difficult question, and not one on which I am qualified to talk from my own knowledge. I have gone around and questioned senior men in the armed services. I have gone around and questioned the heads of industry and collected various opinions, but I feel reluctant to give opinions on that matter myself.

Q. Very well. If you do not care to give an opinion it is perfectly all right. Now, consider our naval personnel. This is practically a new problem. Our naval strength in the last war was a very minor factor. Out of this war will be returned another group of very highly trained and efficient men and women, many of whom were just boys and girls when they went into the service. And to make this short, I suggest to you that Canada's problem of demobilizing the army will call for a standard of life in Canada on an expanding basis if these highly trained men and women in the fighting services are going to be accommodated to anything like their normal desire would be. Would you agree with that?—A. I quite agree that the best is none too good for the men coming back out of our armed services. I quite agree that we want the largest national income we can possibly get. We are all of us, whatever our other opinions may be, united in hoping that there will be the maximum of employment and the greatest continuity of employment.

Q. And on the standard?—A. In so far as we realize these hopes that I have just mentioned then the ordinary Canadian and the Canadian returning from the war will have a good standard of life.

Q. Agreed; but it is going to be a job of government to provide that standard of life for these men and women if it is at all possible to do it.

Hon Mr. HANSON: Would you limit it to the government?

Mr. McGEER: I mean, if we think it is necessary, where it is not done by private enterprise then the task must be assumed by government.

The WITNESS: If we are all of us going to find jobs after the war, including the returned men, all of us at home are going to do a pretty swell job.

By Mr. McGeer:

Q. Agreed.—A. But I think we short circuit the argument, surely, when we say that this is the responsibility of government.

Q. Very well.—A. Or that it is the responsibility of any one given section of the community:

Q. Yes?—A. —In fact, if we do not inaugurate socialism, then it is certain that the great majority of employable Canadians immediately after the war will be employed by what I call private enterprise—

Q. Certainly.—A. —and a relatively small minority will be employed by or for the government. On the other hand one cannot take the whole responsibility for coping with the enormous problem that faces us and say this is all of it the responsibility of private enterprise; still less can we say that it is all the responsibility of government. Any one of us could let down the people of Canada and the returned men. But I hope we shall not.

Q. Now, Professor Jackson, just to complete the picture, we have dealt with the army and the navy, the fighting forces; I now come to the industrial workers, the men and women—you have been through some of our modern war industries?—A. I have.

Q. You have seen people working under efficient, ideal working conditions and reasonably high rates of pay?—A. Yes.

Q. That too confronts us in Canada with the problem of providing employment on a standard which those people have been enjoying during the war period; do you agree with that?—A. I want all of us to have as high a standard as possible. But I would not select the standard of living of a particular man in relation to 1943 or 1944 and say that was the deadline.

Mr. CLEAVER: It might be much higher.

The WITNESS: Or not as high. I suggest that in considering problems of this kind there are two possibilities which we must keep in mind. If we prove wise and succeed in co-operating with one another, and if the international

situation permits, we may go on to a higher standard of living than any we have heretofore known; but I am bound as a Canadian also to face the possibility that, if those conditions are not realized, our standard of living may go down.

Mr. McGEER: I hope it won't.

The WITNESS: Without dogmatizing as to what will happen I think, Mr. McGeer, we must recognize that there are both possibilities present in this case.

By Mr. McGeer:

Q. And, of course, the desire of the government is to avoid that decline in the standard of living and to secure a rising standard of living.—A. The desire of all of us is to avoid a decline, if we can.

Q. Coming to that point, Mr. Towers I think in his report made an observation which I would like to read to this committee. He said the same thing. He said: I think there is altogether too much complacency with regard to what the future will do for itself; and he goes on to say, "a working force of this size, at present rates of efficiency will be able to produce a vastly greater quantity of civilian goods and services than Canada has ever known before"; in that you will agree with him, will you not, that there is a potential depressional glut as a possibility?—A. I am afraid those expressions like "potential"—what was it you called it?

Q. I will simplify it for you then; let us say, danger of over production.

The CHAIRMAN: I think he called it a depressional glut

Hon. Mr. ILSLEY: He said, as I recall it, a "potential depressional glut".

The WITNESS: I think there is danger in these phrases. If I were to deal with that phrase, I fear that I would get muddled, sir.

Mr. McGEER: And you don't want to be muddled. I will put it to you in more simplified form.

Hon. Mr. HANSON: That might be better.

Mr. McGEER: I will simplify it by saying, there is danger of over production.

The CHAIRMAN: Relatively.

Mr. McGEER: Relatively, all over the country.

The WITNESS: There is the danger that we may not be able fully to use our productive resources.

Mr. McGEER: And that will result in unemployment in this particular field.

The WITNESS: Yes.

Mr. McGEER: That is one thing that Mr. Towers recognizes, I think.

Mr. CLEAVER: And that would come about if our own people did not have a high enough standard of living to consume the goods which we produce.

Hon. Mr. HANSON: Would it not come about if we did not keep up the national income?

Mr. McGEER: We will come to that and we will deal with that also. Now, page 12 again: "by the same token a vastly increased volume of consumption"—that means vastly increased volume of employment, does it not?—A. That is contained in the sentence, yes.

By Mr. McGeer:

Q. And now, a vastly increased volume of consumption may come in other ways, may it not?—A. Than what?

Q. Than employment.—A. If you have a vastly increased volume of consumption you must have a great volume of employment to produce the goods that are going to be consumed.

Q. Yes.—A. Supply and demand are not two separate things, they are the reverse and obverse of the same coin.

Q. Well, for instance, let me give you one concrete example; suppose we increased the volume of purchasing power in the homes of Canada through the distribution of children's allowances, that would increase consumers' buying power, would it not?—A. That would increase some consumers' buying power but whether it would make for a net increase of consumers' buying power overall, would depend upon a lot of other questions which Mr. Ilsley has not yet answered.

Q. But you do not assume *per se* that the distribution of money in the form of children's allowances will increase Canadian consumers' buying power?—A. I do not assume that any handout, if I may so phrase it, will increase the country's purchasing power, unless I know all the circumstances surrounding that handout.

Hon. Mr. HANSON: Taking it away from the one and giving it to another does not increase purchasing power.

The WITNESS: No.

Mr. JAQUES: What about distribution?

Mr. McGEER: So that children's allowances is going to depend upon the policy of taxation—that is what we call distribution of wealth—you do not think that will increase the nation's buying power on the whole?

The WITNESS: If Mr. Ilsley takes an additional \$100 from you in order to subsidize someone else with a larger family than your own, the sum total of human welfare may be increased because in the eyes of God it may be better that the other family should have \$100 than that you should have the \$100, but you have not increased the aggregate consumption of the country by taking from Mr. McGeer and giving it to Mr. Smith or Mr. Brown.

By Mr. Cleaver:

Q. Do you not think, Mr. Jackson, that if you took \$100 from a man who has an income so high that he cannot spend that \$100 on consumer goods and give it to a family in the low brackets which will spend it on consumer goods, do you not then agree with Mr. McGeer's suggestion?—A. Not necessarily, sir. If your wealthy man from whom that \$100 has been taken would otherwise have hoarded that \$100, you naturally might say that you have forced that \$100 into circulation. But if your wealthy man was going to invest that \$100 in say the construction of an extension of a steel plant, and that \$100 would ultimately have found its way to the pocket of some wage earner laying the foundations of that steel plant, then I say that the given \$100 of that rich man's income would have gone into circulation just as surely had it not been taken from him, as if it were taken and given to the father of a large family.

Mr. CLEAVER: I have another question on that, sir, which I would like to put to Mr. Jackson, if you don't mind?

Mr. McGEER: Not at all.

Mr. CLEAVER: If the \$100 that you spoke of is going to be spent on the construction of further capital goods, I suggest to you that it depends on the type of capital goods; if it goes into capital goods, such as homes that are to be occupied and that will not produce still more producer goods; I suggest to you that in that event you are right; but if this \$100 is going into the steel industry and it is going to produce capital which in turn will produce still more consumer goods without providing the public buying power to consume them, I think you are wrong.

By Mr. McGeer:

Q. You will agree with this, won't you, that if money is taken from people who are buying automobiles, trying to maintain homes and gardens and buying multitudinous equipment that goes into homes and such things as are purchased, if this is engaged in consumer industry, I think we are all in agreement that that would act to increase the total volume of consumer buying power. In fact, it might have the effect of generally reducing it?—A. If you take \$100 from A and give it to B—that is the condition you are imagining?

Q. "A" would have spent that money on some of the things that are now looked upon as necessities of life, high-grade plumbing equipment in the home, gardens where gardeners are employed and where nurserymen are engaged. That kind of thing would contribute to the general well-being of the community.—A. Yes.

Q. Where if you reduce everybody down to the level of the necessity of having \$9 a month for their children you would probably reduce expansion throughout the whole land and instead of having increased consumer buying power on that policy of redistribution of wealth, if it is carried too far, you might substantially reduce it throughout the land?—A. You can.

MR. GRAHAM: May I ask one question on the family allowances? I think you would agree that if family allowances would increase the health, well-being, education and the intelligence of our young Canadians, and we had markets for productive capacity, in the long run it should increase the productive capacity of the Canadian people? In other words, intelligent, well educated, well brought up Canadians will produce more as a rule than those who are less favoured?

MR. FRASER (*Peterborough*): Do your cash bonuses guarantee that?

By Mr. Graham:

Q. Do you not get my point, that family allowances paid out by the government as the people's agent, if they produce a better type of Canadian by giving him a greater degree of health, of education and training, should in the long run increase the productive capacity of our Canadian people?—A. I think my answer to Mr. Graham is "Yes", but I would like to be allowed to put that in my own words to be sure I am saying what I really want to say. I should like to see all the policies of the government in Canada judged first by one touchstone, not the sole criterion that you would apply to any proposal, but the first criterion that you would apply to any proposal—

MR. McGEER: And to all?

THE WITNESS: —of any kind brought before the parliament of Canada. I would like first of all to ask the question, Is this proposal, when considered from all necessary points of view, going to make the next generation of Canadians better and fitter human beings than they would become if this proposal were not carried out?

I regard us, Mr. Chairman, as the lost generation. I am not much good, and nothing that the government of Canada does to me will make me much better. That perhaps applies with respect to most of the people in this room; but there are infinite possibilities in our children in the cradles and in the primary schools, who have not yet been warped, disappointed or spoiled.

I should like to see that touchstone applied first to every question that arises in this building. On the other hand, unless I know all the circumstances surrounding the proposal to institute family allowances I do not think I should take for granted that this proposal, with its unknown surrounding circumstances, is necessarily going to make for the greatest good of the greatest number of children. That does not mean I am saying "no" to your question;

it does mean that I want to know more about the proposed family allowances than I know at the present time.

Mr. McGEER: Professor Jackson, what I am dealing with is consumer buying power.

Hon. Mr. HANSON: Before he comes to that, if it has the effect of keeping down wages or reducing wages you would not agree with these family allowances?

Mr. McGEER: We will all agree with that.

The WITNESS: I am trying to look at the Canadian economy as a whole.

By Hon. Mr. Hanson:

Q. But that would be one factor?—A. That is one thing I would have to think about.

By Mr. McGeer:

Q. If we increased consumer buying power by improving the lot of the old age pensioner in Canada your answer would be the same to that?—A. And my qualifications the same.

Q. And if we improved the educational system of Canada and engaged many more people in the science of education and paid them better wages that would also be subject to the same answer, I take it?—A. Yes.

Q. If we improved the lot of the civil servant in our municipalities, in our provincial governments, in our national administration, by raising their wages your answer again would be the same?—A. And subject to the same qualifications. If you put me in the civil service, Mr. McGeer, and raised my wages too high you might lay an intolerable burden on a lot of Canadian taxpayers whose sales abroad or other activities are absolutely necessary for the government to stay in business. That is why I do not want to concentrate too much on anybody's individual standard of living.

Q. Now, you will agree with me that this statement made by the president of the Bank of Montreal in the annual report of the meeting held on the 5th of December, 1932, is reasonably sound. It is at page 7: "The weight of public debt and taxation restricts trade."—A. Last Friday I was a little reluctant to talk about any statement out of context. I do not approach this question suspiciously; nevertheless there is a difference between giving me the text of the report by Mr. Towers, with which I was already well acquainted, and quoting to me one sentence out of a speech by the president of the Bank of Montreal, which I have not read.

Q. Let me read it all to you because I understand you have had wide experience in monetary economy, and have been associated with the Bank of England. In what years were you associated with the Bank of England?—A. From 1935 to 1939.

Q. In what years were you associated with the Bank of Nova Scotia?—A. From 1926 to 1935.

Q. So you have had experience in Canada and in England during the pre- and post-depression periods as an associate of British and Canadian bankers?—A. That is true.

Q. Let me read this to you:—

The weight of public debt and taxation restricts trade. In less than two decades our federal funded debt has increased from \$336,000,000 to \$2,500,000,000, or nearly eight-fold, while in the same period provincial and municipal debts have mounted in relative ratio. Seventeen years ago, no direct taxation was imposed by the dominion government; in the last fiscal year the amount raised by such levy was \$122,266,000, and within sixteen years provincial government taxation has arisen from \$15,700,000 to \$125,000,000.

Facing that situation in 1932 the president of the Bank of Montreal declared that the weight of public debt and taxation restricts trade. Do you agree with him?—A. It certainly was restricting trade at that time.

Mr. SLAGHT: Who was the president?

Mr. McGEER: Sir Charles Gordon.

By Mr. Cleaver:

Q. Any increase in the cost of production would have a dampening effect on trade?—A. Certainly.

Hon. Mr. ILSLEY: I was going to suggest that heavy taxation and rapidly increasing debt during the war does not seem to have restricted trade.

Mr. McGEER: And will not as long as the government taxes to increase the debt load and uses it as buying power to keep the thing going.

Mr. GRAHAM: Is that not true because we can to some extent disregard the cost factor in the present war period?

Hon. Mr. ILSLEY: I do not know to what it is due, but the effect seems to contradict the statement; that is all.

Mr. SLAGHT: Mr. Minister, is it not true also that the trade that you speak of as so satisfactory now is a trade in munitions and arms that we are blowing into the air to kill people with, and not the kind of trade we can look forward to after the war?

Hon. Mr. HANSON: That is true.

Mr. McGEER: Nor are we accumulating something to serve the people with which can be accumulated in too great volume. Keeping in mind Sir Charles Gordon's statement in 1932 let me bring you to what Mr. Graham Towers says about that situation.

The WITNESS: Are we referring back to this report I have before me?

By Mr. McGeer:

Q. Yes, at page 11, if I may draw your attention to it. He says:—

I do not wish to suggest that public debt could be increased at the present rate for an indefinite period without placing intolerable strain on our economy.

As a consultant, have you any idea or can you indicate to us when that intolerable strain would be placed on our economy? In other words, what is the debt limit of the Dominion of Canada?—A. I do not think there is a point at which you can halt as if you had reached a milestone, and say "Here is the debt limit." I doubt if Mr. Towers had any such point in mind when he wrote this report.

Q. Well, his language is pretty plain, Professor: "I do not wish to suggest that public debt could be increased at the present rate for an indefinite period without placing an intolerable strain on our economy." Where is the point when the intolerable strain will come?

Hon. Mr. HANSON: When the national income begins to drop.

The WITNESS: I think there is no point on which you can put your finger and say, "Here, the strain becomes intolerable." I am not qualifying Mr. Towers' statement in saying that. I am only trying to give the statement form.

By Mr. McGeer:

Q. He gives us the statement here, "The key to this problem, as to many others, lies chiefly in the maintenance of a high level of employment and income."—A. I quite agree.

Q. To do that, to revert to page 12, he says, "The adjustments required will clearly be of unprecedented magnitude, and bold planning on the part of labour, farm and business organizations, as well as governments is urgently needed."

Hon. Mr. HANSON: You have all got to pull together.

By Mr. McGeer:

Q. That is pretty succinctly defining the problem that confronts the government in the post-war period, whatever it may be. Do you not think so?—

A. Yes.

Hon. Mr. HANSON: It defines the duty.

By Mr. McGeer:

Q. I come to another proposition. Suppose the government in financing family allowances— A. Suppose the government what?

Q. In financing the distribution of family allowances, increases in old age pensions, expansions in the broad field of social and cultural life—that is health and education—suppose the government created new money, suppose it did not take it from the man who would have a gardener, buy an automobile or have a high-grade plumbing establishment in his house, but that it created and put into circulation new money that would—and may I get the answer without dealing with the subsequent results. That would, in the first instance, increase the Canadian consumers' buying power?—A. That is the question?

Q. Yes.—A. I think in fairness to my clients, sir, I am bound at this stage to say that I am not trying to tell Mr. McGeer what all the retail merchants in Canada think on these difficult questions.

Q. No. I quite agree.—A. This dialogue has become a rather personal matter between Mr. McGeer and myself; and we have had a remarkably small area of disagreement, it being only on qualifications. I think I am bound to put it on the record that Mr. McGeer is asking my opinion on certain things, and I am giving him as honest an opinion as I can for myself; but I should not like to commit anyone else by what I now say. May I come back to the question that has just been asked. The question, as I recollect it, is that if the government of Canada were to create money—

Q. New money.—A. New money, in order to achieve the purposes which Mr. McGeer has enumerated, would it not—what was the end of it?

Q. Would it not increase, in the first instance, the volume of consumers' buying power throughout the dominion?—A. Do you mean, by saying "in the first instance," in the immediate short run, without reference to any ulterior consequences at all?

Q. Yes, I do.—A. In those narrow terms, I think the answer is certainly yes. I think if the Minister of Finance creates a dollar additional to all the other dollars in circulation, and is kind enough to give that dollar to me for the moment—

Q. As an old age pensioner, we will say?—A. In any form. I have not yet qualified for that.

Q. They have not got you in that category yet?—A. No. But if he gives that dollar to me for any reason or for no reason at all, Mr. McGeer, momentarily the demand of consumers has been increased as a whole by one dollar, subject to two qualifications: first, that I spend the dollar, because I could put it in a sock, in which case—

Q. You could; but the old age pensioner or school teacher or the child needing the family allowance would not do that.

The CHAIRMAN: Please allow the witness to finish his answer.

Hon. Mr. HANSON: Yes.

The WITNESS: All I say is if I should put that money in a sock, which even old age pensioners have done, it is a fact that the minister's generosity would be neutralized forthwith.

Mr. Mr. McGeer:

Q. Yes?—A. The second point, which I think Mr. Hanson had in mind, was this. If the productive capacities of Canada are already being fully utilized along the line of my prospective expenditure of one dollar, then I do not think that bringing one more dollar into the market would produce a constructive economic result.

By Mr. Jaques:

Q. You cannot have over-production?—A. I beg your pardon?

Q. You cannot have a state of over-production?—A. Well, I should like to put it this way. On a famous occasion Mr. Towers, I believe, said that whatever is physically possible is financially possible.

Q. We said that a long time before that.—A. Well, my compliments to the original author of the statement. But I think the same statement can be turned around with equal truth. It can be said with equal truth that whatever is physically not possible is also financially not possible.

By Mr. McGeer:

Q. In any event, the creation of new money would—if it were put into circulation where it would be spent and did not disrupt the price level—improve the lot of those engaged in the production of consumer goods and services and their distribution, as well as the lot of those who needed them and could not get them unless that money were supplied in that way?—A. If you have unused productive capacity, and if you can cause it to be used more fully by creating new money, without bringing about ulterior consequences such as a raising of the price level that you would deplore,—

Q. Yes.—A. Then I think the consequence of issuing this new money will be beneficial. I should like, if I may, to be permitted to enlarge on that and take an illustration. The Bank of Canada, you may remember, sir, came into being at a time when we had a lot of unused productive resources in this country. One of the first policies pursued by the Bank of Canada was just such a creation of new money with a view to trying to accelerate our recovery from the depression. It was not wholly successful. We did not immediately become prosperous. But I think Canadians, looking back on those years, are agreed that the Bank of Canada was well advised to pursue that policy that it did.

Q. Have you ever heard of any prominent and outstanding Canadian banker indicating that the last depression was caused through a deficiency or a decline in the supply of money?—A. That is a very large question, sir; because I was working in one bank or another for twelve years, and I spend a lot of my time talking to people, and I do not remember all the conversations that I hold. But in all good faith, I think the answer is no.

Q. All right. I am going to suggest to you that Mr. Neill of the Royal Bank of Canada who, I think, was able in the very highest degree as a banker—what were his initials?

Q. No, C. E.—in the annual report dated January 8, 1931, dealing with the depression and the fall of prices said this: "Were the fall in prices due to increased production, no further explanation would have to be looked for but, in fact, the fall coincides with diminished production. The total value in money of the output of the world is decreased both by the percentage by which prices fall and by the decrease in the physical volume of production."

"These wide fluctuations in the money value of output are clearly a monetary phenomenon which, if properly understood, could be prevented. Over-supply of individual commodities could explain the decline in the value of one commodity in relation to another. Over-production of agricultural products in relation to manufactured articles would justify a decline in the price of farm products as compared with the products of industry, but when the average of all prices declines this can only be explained by an under supply of that in which prices are expressed, i.e., money." Do you agree with that?—A. What was the date of that statement?

Q. Right in the middle of the depression—1931.—A. I did not have the honour of knowing Mr. Neill. I never met him, and he is no longer alive. But with all respect to the dead, I say that neither Mr. Neill nor myself understood the very complicated situation existing at that time.

Q. And Mr. Neill goes on—but you will agree with me that he was a highly experienced and highly trained and able banker in Canada?—A. He was a great banker.

Q. Now, if he did say that, would you agree or disagree with him as a consultant?—A. I have already stated my conviction that in 1931 neither Mr. Neill nor I myself understood the very complicated problem then confronting us.

Q. I see. Let me continue his statement: "... and it would seem that if the effective supply of money is kept in the right relation to production of commodities the phenomenon of a declining average price level will not occur." What would you think about that?

The CHAIRMAN: He has answered the question already.

Mr. McGEER: Let the witness answer.

The WITNESS: The only observation I can make is this—the statement quoted is an over-simplification of the situation, to the point where it loses all reality to me.

By Mr. McGeer:

Q. All right. Let me come to another statement which you made as to what you conceive to be the essential thing for a government to do in the post war period, and that was to balance the budget. I think I have your words correctly: "ruthless taxation and a curtailment of public expenditure"?—A. I do not want the minister to balance the budget the moment the bugle blows "Cease Fire." That would not be possible. But as an ultimate objective we must, I think, in order to keep our economy working, aim at a situation in which normally—by which I do not mean in every single fiscal year—the government collects from the public as much as it spends. How much it will need to collect will depend, in part, on how careful or extravagant the government is in its expenditures. A government extravagant in its expenditures must be ruthless in its taxation, if it is going to do its duty by the country. To the extent that the government is able to set limits upon its expenditures, its taxation of you and me will hurt less.

Q. I want to review with you our experience in the field of balancing Canadian budgets in the post-war period after the last war, and I think for the moment we had better adjourn.

The CHAIRMAN: Mr. Jackson will find it impossible to be here after 6 o'clock. Mr. Graham and Mr. Cleaver have given notice that they would like to ask certain questions, and I earnestly ask that we finish with the witness by 6 o'clock.

Mr. McGEER: I could finish with the budgets if you let me proceed.

The CHAIRMAN: Now? You have had an hour and a half.

Mr. McGEER: All right. I can deal with it elsewhere, but I would like to finish the budget balancing matter that I started.

The CHAIRMAN: Over the week-end and in the last two weeks I have heard a number of statements from members of parliament that we, after all, are only a small committee of the house, and many of them want to discuss this bill in the house; so I think as soon as we can we should report this bill to the house and give the other members an opportunity to discuss it. I earnestly think you should let us have some action on behalf of our colleagues who are not members of this committee.

Mr. JAKES: I would like to ask a few questions this afternoon.

The CHAIRMAN: I think you will find the opportunity if the chairman has any say.

Mr. McILRAITH: Mr. Chairman, we are meeting every day with the same experience—we had the expression used again, “if I am going to be shut off”—that expression has been used by Mr. McGeer. The effect of his examination of this witness as presently conducted—and it is not his fault—I do not mean to imply it is his responsibility—is that they do examine the witnesses for hours on end.

Mr. McGEER: That is not true.

Mr. McILRAITH: It is a good job.

Mr. McGEER: That is not true.

The CHAIRMAN: Order. That is not parliamentary language.

Mr. McGEER: The statement is not true.

Mr. McILRAITH: This must be corrected. I have not taken any of your time and I have listened patiently; I have been doing that from day to day; but I have rights in this committee and so have the forty-nine other members of the committee, and to me the situation is simply this: we are deteriorating into a position where witnesses are brought before this committee and two or three or four members have made a study of the subject and they properly want to examine those witnesses thoroughly. In doing so it comes to the point where we are told that witnesses cannot come back and the rest of us who may have one, two, three or four relatively small questions will not have an opportunity of examining these witnesses. I suggest, Mr. Chairman, that we surely should be able to work out some system whereby all members of the committee could have an equal opportunity with the witnesses. And with that in mind, is there some way in which notice can be given to the chairman or to some sub-committee of the points on which it is the desire of any member of the committee to examine a witness and what time that would probably take? In that way I think we might all have a chance.

The CHAIRMAN: I have already made that suggestion.

Shall we adjourn until 4 o'clock this afternoon, please?

The Committee adjourned at 1:10 o'clock p.m. to meet again at 4 o'clock p.m. this day.

AFTERNOON SESSION

The Committee resumed at 4 o'clock p.m.

The CHAIRMAN: Gentlemen, Mr. McGeer says that he sees a quorum; and Mr. McGeer has asked for just one half hour in which to complete his examination of the witness. Mr. McGeer, you have the floor:

Mr. SLAGHT: Mr. Chairman, if you please, before the committee proceeds: Mr. Tompkins has been good enough to call my attention to one item in Exhibit 38 filed this morning where the figure should be \$1,397,000,000 instead of \$1,497,000,000. I am glad to have that corrected. Then in the caption, or the wording of the statement he has made some helpful suggestions which I adopt. Would the committee please, with Mr. Tompkins' suggestions, accept that as Exhibit 38?

The CHAIRMAN: That has been already approved, Mr. Slaght. Now, Mr. McGeer:

By Mr. McGeer:

Q. In connection with your suggestion or proposal of a balanced budget in the post-war period I would just like to draw your attention to the budget speech of the Hon. Chas. Dunning of May 1, 1930, in which in a very few words he described our balanced budget in the pre-depression period. At page 5 of the published budget speech he says:—

Mr. Robb was in command during the first seven months of the period and the stamp of his personality is to be found throughout the balance sheet and in particular on the debt statement.

With the Scot's characteristic dread of debt he annually budgeted for debt reduction, and in the past seven years attained for Canada greater success, relatively, than has been achieved by any country which took part in the Great War from the outbreak of hostilities. Annually the debt has decreased and in the year under review, a record which may stand as a monument to his memory was made when two loans, totalling \$80,000,000, were redeemed out of accumulated revenue surpluses.

So the principle of balancing the budget, Professor Jackson, is not new in our Canadian experience. We did balance the budget up until 1930, during the post-war period. And in that year at page 11 of the same speech the Minister of Finance (the Hon. Chas. Dunning) succeeding the late Hon. Mr. James Robb, stated:—

The revenue and expenditure statements may now be summarized.

The ordinary and special receipts amount to \$447,322,000. The total expenditures for all purposes amount to \$402,815,000, thereby leaving an estimated surplus of revenues over all expenditures of \$44,507,000.

Now notwithstanding that policy we went headlong into the worst depression we had ever suffered; that is correct, is it not?—A. Yes.

Q. United States carried on a similar program of debt reduction which was more than balancing the budget and they went into the same situation?—A. Yes.

Q. Now, in 1938, Mr. Dunning, still Minister of Finance, in his statement—A. 19—, what is the year—38?

Q. 1938.—A. Thank you.

Q. Eight years later on. Mr. Dunning says:—

As I have reported our total revenues at \$516,692,000 and our total expenditures at \$530,467,000, it is apparent that the overall deficit, in other words, the increase in net debt, for the fiscal year which ended on March 31 last was \$13,775,000.

While naturally I am disappointed to have to report any deficit, I believe there is cause for gratification over this close approach to a balanced budget after eight years of very large deficits. It will be recalled that for 1936-37 the realized deficit was \$77,851,000 and that when I delivered the budget speech last year I did not venture to forecast a deficit for 1937-38 of less than \$35,000,000. That we have done so much better than that forecast is all the more gratifying when we consider the abnormal item of \$5,000,000 added to the annuities reserve and the substantial unanticipated increase in our expenditures resulting from the crop failure in western Canada. As I have already indicated, the increase in our special expenditures resulting from intensified drought conditions was over \$20,000,000 and the increase in the C.N.R. deficit arising from this cause was at least \$7,000,000. Had it not been for this unfortunate catastrophe, it is clear that to-day I would have been able to report an overall surplus.

The progress which this government has made in approaching its objective of a balanced budget within the shortest practicable period is indicated by the fact that, while the overall deficit in our first year, 1935-36, was \$159,989,000, the deficit was reduced to \$77,851,000 in 1936-37, and to \$13,775,000 during the past fiscal year.

So we had a balanced budget up to 1930 and a desperate effort made, as the statement indicates, on the part of the Minister of Finance to balance the budget throughout the pre-war years; and that year the total expenditure for defence was cut down in a desire to balance the budget mind you, and it is stated on page 18: "Total expenditures of the Department of National Defence during 1937-38 amounted to \$32,760,000, an increase of \$9,837,000 over the previous year." Now, if the Minister of Finance in 1938 was unable to balance a budget of \$500,000,000 odd, what hope do you think there is of balancing a budget which must be under any circumstances a great many times that sum?—A. I have hope, Mr. McGeer. If the Minister of Finance in time to come could not balance the budget of Canada, I should despair of this country. But I have hope that he will some day balance it. Does that answer your question?

Q. Well would you suggest that the budget be balanced at the expense of unemployment as it was during the preceding periods?—A. I have a suspicion that this is what the lawyers call a leading question. Is it not a little like asking me whether I have stopped beating my wife?

Hon. Mr. HANSON: It is a double-barrelled question.

The WITNESS: There is going to be some unemployment whatever we do. My belief is that if we make it our objective to balance the budget in the long run, we shall have less unemployment than we should have in the long run, if we followed some other policy.

By Mr. McGeer:

Q. Well would you suggest that if we had balanced our budget in 1931 and 1932 and during the 30's, that we would have had this unemployment?—A. No, sir. It is not in my mind to criticize the policies that have been followed by the Finance Ministers under these varying circumstances. You may remember that this morning I talked about the balancing of the normal budget, and not about the necessity for having the budget balanced every year under all circumstances.

Hon. Mr. HANSON: You recall, do you not Mr. Jackson, that President Roosevelt appealed to the people in 1932 on the policy of a balanced budget?

The WITNESS: I remember.

Hon. Mr. HANSON: But he did not make good.

Mr. McGEER: He found out that if he did he could not possibly put his program into effect.

Hon. Mr. HANSON: President Roosevelt was elected on that platform nevertheless.

The WITNESS: May I add this, Mr. McGeer; there are circumstances under which your Finance Minister could not balance his budget; but we should try to create the circumstances under which he can balance his budget.

Mr. McGEER: I quite agree with that, but on the other hand I think there are ways of balancing a budget and meeting full employment and the nation's integrity, for defence or whatever purposes may be in the offing.

Hon. Mr. HANSON: Hear, hear.

Mr. McGEER: But we cannot do it under monetary policies or the monetary systems that existed prior to the creation of the Bank of Canada, and I do not think we can do it yet without some changes in the administrative machinery of that institution.

Hon. Mr. HANSON: You suggest though a monetary system which relates to a balanced budget, not the question of taxation itself?

Mr. McGEER: You will agree with me, will you not, that in the light of subsequent events the program of expenditure for defence was wholly inadequate in the years 1930 and 1939?

Hon. Mr. HANSON: They were not enough.

Mr. McGEER: That is what I mean; we did not have the money or we presumed we did not have the money, and we could not carry on a defence program and a balanced budget program at the same time; you will agree with that, will you not?

The WITNESS: I do not know, sir, that I am in a mood to criticize the financial policies followed by Mr. Dunning in a given year. I thought that I was being questioned on the principles of handling the budget.

Mr. McGEER: What I am trying to say to you is that we tried to balance our budget in 1937 and 1938 and 1939, and one of the things we did was to cut our expenditures for defence away below that which a great many of us desired, and we were told by the Minister of Finance that the money was not available, that we had to balance the budget and that is why we cut off expenditures for defence.

Hon. Mr. HANSON: Mr. McGeer, was it not because public opinion would not support the expenditures?

Mr. McGEER: I disagree with that.

The WITNESS: I should perhaps state here that I was not even in this country then; so that I am the person least qualified of all those in this room, to discuss this subject.

Mr. GRAHAM: In 1938 we spent more on defence than we did in the previous year.

Mr. McGEER: By about \$9,000,000 but, as a matter of fact, if I recall rightly the amount that went to the treasury board was somewhere in the vicinity of \$200,000,000. I myself advocated the expenditure of something like \$400,000,000 at that time.

Mr. GRAHAM: The fact remains that in 1938 there was an increase over 1937.

Mr. McGEER: So small that it did not amount to anything.

By Mr. McGeer:

Q. You were in the old country at that time and the same condition obtained there. You, I suppose, know of Mr. Robert Boothby?—A. I have heard of him.

Q. The author of a small booklet called, "The New Economy".—A. I am afraid I have not heard of that book.

Q. I may tell you Mr. Robert Boothby is the author of "The New Economy" published in 1943. He is a nephew of Lord Cunliffe, the predecessor of Montagu Norman, the late Governor of the Bank of England. He has sat in the House of Commons as a Conservative member since 1924. He was parliamentary private secretary to the Chancellor of the British Exchequer, the Hon. Winston Churchill, from 1926 to 1929.

Hon. Mr. HANSON: What happened to him?

Mr. McGEER: He is still in the House of Commons.

Mr. JACKMAN: Still a Conservative.

Mr. McGEER: Still a Conservative member.

Mr. JACKMAN: Progressive?

The CHAIRMAN: What did he say? That is the point.

Mr. McGEER: At page 34 he offers this observation:—

The year 1937 was critical. The German rearmament, based on full employment, began to move rapidly towards its tremendous climax. The German trade drive into Eastern Europe, based on currency manipulation and export subsidies, began to assume menacing proportions. The forces of international Fascism invaded Spain and overthrew the democratic Spanish government. Japan invaded China.

What was the answer of the western democracies to all this? A second deflation. As we have seen, President Roosevelt began it by reversing the expansionist policy of his administration, reducing federal government expenditures, and delivering a major attack upon the basic industries of the United States. We followed suit by pursuing a general policy of contraction, and by limiting expenditure on our rearmament program to a global total of £1,500 million—although it was already known to the British government that the expenditure of Germany on rearmament was of the order of £7,000 million.

On page 39 he says:—

Over and over again we allowed ourselves to be beaten not merely by superior methods, but quite simply by speed; with the result that we embarked upon Armageddon without an ally except France, without aeroplanes, without tanks, without guns, without even a reserve of essential commodities.

Then, on page 40:—

Of all the blows delivered against this unfortunate country by the Treasury, the refusal to permit an expenditure on rearmament in excess of £1,500 million was the most savage. A member of Mr. Chamberlain's cabinet once said to me "That upper limit, or 'global total' of expenditure was the main cause of the trouble. It forced us into the policy of appeasement".

The contractionist and deflationary policy imposed on the business community by the Bank of England and by successive British governments between the two world wars was inevitably reflected in the internal arrangements made by various industries. In a desperate effort to maintain profits, private enterprise largely ceased to be free, and became self-regulated through monopolies, trade associations, and price agreements. These arrangements did not aim at the elimination of redundant or obsolete firms, or increased efficiency and output. Their object was simply the preservation of the status quo by maintaining profits only for

the benefit of those already engaged in the industry, by making entry into it difficult if not impossible for newcomers, and by discouraging enterprise and the introduction of new processes and inventions.

Then, on page 42:

Not scarcity but glut became the bogey. And by 1939 the entire fabric of "laissez-faire" capitalism, upon which the economic strength of the western democracies still rested, had crumbled away. From the moment the profit-motive took the form of restriction instead of expansion, the system was doomed. For all this the bankers—and especially the Bank of England—were greatly responsible. The late Mr. Vincent Vickers was a notable exception. He resigned from the Court of the Bank of England rather than accept further responsibility for a policy which he knew was disastrous. "We have to remember", he said, "that the value, that is to say the purchasing power, of money, and consequently the price of goods, can be, and has been, varied intentionally and deliberately not by the will or action of the state, but by those individuals who themselves manage and control the money, though they constantly aver that they act for and on behalf of the community. We returned to the gold standard in 1925 for the benefit of the city of London, and so ruined our basic industries. It does not follow that what is best for the city of London, is best for the country . . . A monetary system which begets such flagrant injustice cannot be regarded as an equitable system. Yet no one in authority here dares to attempt to alter it because the financiers don't want it altered."

It was the bankers who, in order to maintain the exchange value of their money, plunged this country and ultimately the whole world into the miseries of depression and unemployment, who denied a subsistence payment to those who (by their will) were out of work, who denied a subsistence living to primary producers everywhere, who allowed wheat, cotton, coffee, and cocoa to be burnt rather than "sell at a loss"—while millions of human beings suffered from want, and often starvation, in idleness. To every outworn economic shibboleth of the nineteenth century, including the conception of strictly balanced annual "budgets", they stuck like glue. They produced poverty in the midst of plenty on a scale never hitherto experienced, or even approached. Finally—with the aid of six million German unemployed—they produced Hitler.

That is an indictment by an English Conservative member of parliament who has had close contact with the hierarchy of money or the Bank of England system. Would you agree with him?—A. I venture to say that this Mr. Boothby sure does cover a lot of territory.

Q. And so did the last depression and the causes of the last war. Mind you, what Boothby does is he puts flatly upon the doorstep of the Bank of England and the bankers the cause of this war.—A. Now, if we are going into the causes of the depression (which are economic and which I hope I know a little about), and the causes of this war (which are much wider than economic and which I do not profess to understand thoroughly), we shall find it difficult to cover the ground very helpfully within this half hour.

Q. No, I do not think we should.—A. Perhaps I should add to your last question, I do not accept a word that Mr. Boothby says. I am not aware that he has any qualifications for making any of these statements.

Hon. Mr. HANSON: You speak of his qualifications. I ask you if he has any evidence in support of them.

The WITNESS: I do not know Mr. Boothby. I only said that I was not aware he possessed any qualifications.

By Mr. McGeer:

Q. He would not likely be made parliamentary secretary to Mr. Winston Churchill during the time he was Chancellor of the British Exchequer unless he had some qualifications to fulfill that position, would he?—A. I do not know how parliamentary secretaries are chosen in England in peace time, but sometimes I have looked at them and wondered.

Hon. Mr. HANSON: So have we.

Mr. McGEER: I suppose Mr. Boothby could say that about economic professors with equal force?

The WITNESS: Absolutely.

By Mr. McGeer:

Q. Now, we will come back to Canada. In 1934 Mr. Jackson Dodds appeared before the Banking and Commerce committee. Mr. Jackson Dodds, appearing before the Banking and Commerce committee, comes all out with this statement: "Since the collapse in the autumn of 1929, our chief efforts have been directed towards protecting depositors and conserving the assets of borrowing clients. . . . Continuing, in spite of the unpopularity of such advice, to impress upon public bodies the necessity of balancing budgets." Would you agree with Mr. Jackson Dodds?—A. In 1934?

Q. Who, speaking as the president of the Bankers' Association, before the Banking and Commerce Committee of the Canadian parliament of that day, said that the budgets of all public bodies—that is, of the national parliament, provincial and municipal bodies—should be balanced. Would you agree that he was right then?—A. No. I do not think I would have said that in 1934.

Q. So you do not agree then with Mr. Jackson Dodds, president of the Canadian Bankers' Association, that the budget should have been balanced in 1934?—A. No. I have sometimes agreed with Mr. Jackson Dodds and sometimes I have disagreed with him.

Q. Well, did you agree with him then? That is what I am dealing with.—A. I was not in contact with Mr. Jackson Dodds in 1934.

Q. I understood you to say—A. I am appearing for the retail merchants. While I was employed by a bank in 1934, I may not have seen Mr. Jackson Dodds in the whole of that twelve months.

Q. No. But you knew the conditions which existed in Canada in 1934?—A. A little, yes.

The CHAIRMAN: Mr. McGeer, Mr. Jackson has already stated that he thought he would not have made that statement at the time.

Mr. McGEER: I did not catch that.

The CHAIRMAN: Why not let the statement go at that? I understood him to make that statement.

The WITNESS: That was what I was trying to say.

By Mr. McGeer:

Q. You do not agree with the proposition that every issue of national currency—that is, the issue of money through the Bank of Canada—is inflation, do you?—A. No, sir. But I have never succeeded in defining the word "inflation" completely to my satisfaction.

Q. Of course in 1934, apparently some of the bankers thought that an issue of \$35,000,000 by the government would be inflation.

Hon. Mr. HANSON: Did they?

Mr. McGEER: Did they not?

Hon. Mr. HANSON: I do not know.

By Mr. McGeer:

Q. Well, do you think that, at that time, that issue of \$35,000,000, not through the Bank of Canada but of dominion government notes, was inflationary?—A. No.

Q. Let me read to you again what Mr. Jackson Dodds said about that?

The CHAIRMAN: Why?

The WITNESS: I think I ought to make this clear.

The CHAIRMAN: Mr. McGeer, may I just tell you that you have only about five more minutes, and we want to get to the point as soon as we can.

Mr. McGEER: All right. I mean to say, surely I can use this.

The CHAIRMAN: I am trying to conserve your time.

By Mr. McGeer:

Q. Let me put this to you, Mr. Jackson—A. I think I ought to make it clear that I know Mr. Jackson Dodds and I like Mr. Jackson Dodds; but I do not see how I can go bail for everything he said ten years ago.

Q. No. I mean to say, at that time the bankers were taking the position that any issue of money of national currency, was inflation; and that is exactly what Mr. Jackson Dodds said to the Banking and Commerce Committee at that time.

Hon. Mr. HANSON: Not all the money.

Mr. McGEER: Well, let me just put it on the record.

The CHAIRMAN: Let us come up to 1944.

Mr. McGEER: Oh, Mr. Chairman, surely I can carry this through.

The CHAIRMAN: It is perfectly all right if you want to; but I thought you wanted to make a point within your half hour.

Mr. McGEER: I want you to listen for a second to what Mr. Dodds said, He was asked if this was discussed with the Canadian Bankers' Association. Then we find this:

Q. Would you consider that a measure of inflation? That is the issue of \$35,000,000.—A. Do I think that was a measure of inflation?

Yes.—A. Yes.

Would you say that you would consider that an inflationary issue now?—A. Now nor in 1934?

Q. In 1934?—A. I would have been disposed to say no. But Mr. Jackson Dodds may have had one conception in his mind of the word "inflation" and I may have another.

Q. Yes?—A. And while I think I would have been right in saying, "No, it was not inflationary," in my conception of "inflation", I would not like to go so far, Mr. McGeer, as to say that Mr. Jackson Dodds was wrong in what he said, before enquiring what was his conception of "inflation" when he used the word.

Q. I see. Suppose that we meet another condition, such as we had in the thirties, in the post-war period coming. Would you continue a condition of depression and deflation or use national currency to alleviate it?—A. Are you speaking to me as if I were Governor of the Bank of Canada?

Q. Minister of Finance; we will take it that you are giving advice to the government.—A. Under circumstances identical with those of 1934?

Q. Yes.—A. Or as nearly as does not matter?

Q. Yes.—A. I should be disposed to think, Mr. McGeer, that a judicious expansion of the credit base by the Central Bank would be a necessary mea-

sure. But in giving that advice, I should be very, very careful to warn the government that this was not a Grand Universal Remedy; that it was only one of the measures which should be taken; and that the causes of the situation existing in 1934 went so much deeper, below the monetary level, that although the proposed expansion of the note issue would be a good thing to do, that expansion would not attack the root of the problem.

By Mr. Hanson:

Q. It would be a palliative, not a cure?—A. I had not thought of using those words, but they seem to me to be quite fair.

Q. I think they are.

By Mr. McGeer:

Q. The only remedy that we found for the depression was to increase public expenditures. Is that not correct?—A. The only remedy we did find?

Q. Yes.—A. For the depression?

Q. Yes.—A. Was to increase public expenditures?

Q. Yes.—A. I do not know, sir. My memory is a little confused about the details of everything that happened ten years ago. I do not want to challenge you, but I do not particularly want to assent to that flat statement.

Q. All right. One of the substantial remedies that was found in Canada to alleviate the depression and unemployment, want and misery, throughout the country was to increase public expenditures.

Hon. Mr. HANSON: That was only one.

The WITNESS: Let us agree that the government spent a lot of money.

By Mr. McGeer:

Q. For that purpose?—A. Yes.

Q. It was one of the remedies that was found necessary, and that had to be done by increasing the volume of money in circulation in the country?—A. It was done, I understood, experimentally, by the issue of that \$35,000,000 of credit.

Q. And when the war came, war demands had to be met by an enormous increase in the volume of the medium of exchange in circulation in Canada?

Hon. Mr. HANSON: Mr. McGeer, on that point you were investigating a moment ago, public expenditure was not the only remedy applied.

Mr. McGEER: I said it was one of the remedies.

Hon. Mr. HANSON: There was the increasing of our trade with England.

Mr. McGEER: That was one of the remedies. But in addition to all the other remedies we were able to find, we were compelled to resort to the increase in public expenditures.

Hon. Mr. HANSON: Yes.

By Mr. McGeer:

Q. You agree with that, do you not?—A. I do not have the budgets of those years in front of me. At times they were reducing public expenditure and at times they were increasing it. I am most reluctant to contradict you, but I do not remember the facts in detail. You may be speaking from the book. Do not ask me to pit my memory against that.

Q. I thought you were a consultant who was in touch with these things, a man who had all these things at your finger tips?—A. My job is to have as much information as possible in my files, and a clear head. In keeping my head clear, I try not to carry too much in it at one time.

Q. I do not want you to answer anything you are not in a position to answer. You do know the conditions which obtained in Canada since 1939 when we declared war?—A. I know something about them.

Q. How otherwise could we have financed the war program without increasing the volume of money in circulation and in issue in Canada?—A. Under the circumstances, I think we probably could not have done otherwise.

Q. So that to conquer poverty during a depression or to conquer a foreign enemy during times of war we have found, out of the last depression and out of this war, the necessity of increasing the volume of the medium of exchange of the people, so that they can go to work on either job.—A. I think you are mixing up two different things. You are talking first of all about a depression which was, in itself, unique, but which had nothing to do with the conditions of the present war; and you are saying that during that depression the government spent a lot of money, which is a statistical fact. I have agreed with that fact and asked you not to tie me to details because my memory is necessarily a little blurred. Then you have turned to this war under a totally different set of conditions and made a perfectly true statement that there has been an expansion in the volume of credit. It was undertaken, if I remember rightly, during the war, not to cure unemployment (because unemployment was pretty obviously going to cure itself quickly)—it was undertaken as an incident to the financing of the war effort with a view to saving the country from external attack. As I conceive the position of the Minister of Finance—and again I speak in his presence with great respect—from September 3, 1939, onwards he was, in his job as custodian of all our money, in somewhat the same position that I was in some years ago, when I found in the middle of the night that my baby had appendicitis. I did not wait until 10 o'clock in the morning to find if the bank would finance an operation on my baby. I took the baby to the hospital and by 10 o'clock in the morning the baby was saved; I did not care in the least what the consequences to my private fortunes would be. In this case we are trying to save the country and trying to save freedom in this country; I think that is the over-riding consideration which has, perhaps, led us to do some things which as financial purists we might have hesitated about under conditions of less urgency.

Hon. Mr. HANSON: The increase of the currency as a result of war expenditures was an effect, not a cause. It was a result.

The WITNESS: Again, sir, I am anxious not to chop logic or make play with words; I shall have to say it was a necessary accompaniment of the minister's financial policy.

By Mr. McGeer:

Q. You will go this far, will you not, that we could not have got the people to work without paying wages, and to pay them wages we had to put the money into circulation?—A. Our anxiety when the war started was to get to work as fast as possible, and I think that was the idea of most Canadians.

Q. And immediately we appropriated money in ever increasing amounts so that we could finance the payment of wages?—A. We did.

Q. We budgeted ahead; we did not budget behind?—A. I agree.

Q. And we had to produce that money so that the people could be put to work in a variety of industries that went together to create the war program; there is no question about that?—A. We had to produce a lot of money.

Q. Will you agree with what Mr. Ralston said when he was speaking in the House of Commons on June 21, 1934: "The control of credit and currency is the biggest and most important public utility in the economic activities of the Dominion of Canada". Will you agree with that?—A. Yes.

Q. Then, if it is the biggest and most important public utility in Canada, under whose control do you think the issue and the withdrawal of money from

circulation should be?—A. The brief, to which I am speaking, represents that the banking system as at present organized is in its essentials well organized; and that the control should be left where it is, in the Bank of Canada.

Q. You are perfectly well satisfied to leave to a group of bankers, whose business is making money by lending money or a substitute for money, whether or not there shall be an adequate supply, an over-supply or an under-supply of money in circulation?—A. May I re-state that in my own words? I am perfectly satisfied to leave in the control of the Bank of Canada decisions as to what should be the volume of credit in this country. I take satisfaction in my knowledge that the power rests entirely with the Bank of Canada and not with the heads of the commercial banks.

Q. Of course, we will disagree on that. Assuming, if we did, that the controls are sufficient to give the Bank of Canada absolute authority, that might be all right—but if they are not sufficient to give the Bank of Canada absolute control, does he think that the private banks should be left in that position?—A. If I had any suspicion, sir, that the central bank had not got that control I should be suggesting to this committee that it be given complete control; but we are talking about something that happened a number of years ago, and I think the appropriate point on which we should rest and agree now is that the Bank of Canada has and for some time past has had complete control in deciding what is the necessary volume of credit in this country.

Q. And if it has not got that power that power should be given to it?—A. Well, I can only repeat once more what I said about fifteen seconds ago to the effect that the Bank of Canada has that power.

Q. You think it has?—A. I can only state my own opinion.

Mr. SLAGHT: You are quite wrong.

The WITNESS: But if it did not already possess that power, I would urge that it be given that power.

The CHAIRMAN: Mr. Jaques, will you proceed?

By Mr. Jaques:

Q. You have just said, Mr. Jackson, that you have absolute confidence in the management and integrity of the banking system of this country?—A. Well, I have not said that, but I am quite willing to say it.

Q. That is what you meant, was it not, that you are content to leave the finances of the country as they are with the banks as they are?—A. What I have said is that the banking system of this country is a very good one and the banking system of this country is very strong.

Q. Well, I agree entirely with you in this that I and the people with whom I am associated believe that the banks are most efficiently and entirely honestly conducted; but when we have said that, how do you explain the conditions which pertained in this country and elsewhere, that is, the economic conditions; or would you say that money and finance have nothing to do with economic conditions?—A. No, sir, I have only said that the manipulation of money was not a Grand Universal Remedy. I have also agreed with Mr. McGeer that the control of our money supply is a very important public utility.

Q. Would you agree to this, admitting as we have admitted that the banking system of Canada—and I suppose in the rest of the British Empire—as far as efficiency and honesty are concerned leave nothing to be desired?—A. They deserve very high marks.

Q. Yes, I agree with you. Would you agree that there might be, or would you admit that there might be something wrong with the system which they so honestly and efficiently administer?—A. Well, sir, no system is perfect, and I should be very reluctant to have anybody conclude from anything I have said that the Canadian banking system is perfect: that nothing whatever could be

done to improve it. This would be an impossible position for me to take; but, subject to that qualification, we have a banking system consisting of a number of very well organized, very strong and, I believe, wisely administered commercial banks. These banks are administering a volume of credit the size of which is completely controlled by the Bank of Canada—an organization in which I think we should feel great confidence. I do not suggest any further major improvement which our banking machinery needs.

Q. Well, shall I put it this way—

Hon. Mr. HANSON: You agree that the banks are retailers of credit?

Mr. JAUQUES: No, we know they are creators of credit.

Hon. Mr. HANSON: Is not the charge against the banks that they are not free enough, that seems to be the gravamen of the charge against the banks.

Mr. JAUQUES: Not free enough?

Hon. Mr. HANSON: That they don't give enough credit.

Mr. JAUQUES: Possibly you will remember that sometime ago in this committee I suggested that perhaps this Bank Act would not give the banks sufficient scope to operate as they will have to do after the war adequately to take care of post-war conditions. I am not suggesting for a moment that the banks should be limited. I think their scope should be enlarged to take care of any condition that may arise.

Hon. Mr. HANSON: They are limited to-day and you want the limit lifted so they can lend to a great extent, and then make them lend.

Mr. JAUQUES: My idea would be this: I think I can illustrate it by a remark made by Mr. Jackson the other afternoon, he contrasted two banks, I think A and B, and he suggested that A had conducted itself from a very sound banking point of view, but Bank B had been more generous or had been more expansive in its policy and it had helped the country a great deal and as a result its reserves had been depleted; if the reserves were published then Bank B which had been of much greater use to the country would be penalized as a result of its actions where the other bank, much more conservative in its policy, would be able to show that its reserves had not been depleted in any way. Now, the point I was trying to make is this: is it not possible, or is it possible, so to frame the financial policy of the country that the banks could meet all legitimate demands for expansion of industry without having to assume risks for which they would be penalized.

The WITNESS: I think that if we were to take a deep breath and wholeheartedly go communist, we might eliminate risk from business. There would be a very heavy price to pay. We would have to abrogate the liberties of the subject. There are citizens of Canada, some of them very fine fellows, prepared to pay that price. But I am not. If we are going to maintain and continue what we term a free society, then in my view it is impossible to eliminate business risk.

Mr. JAUQUES: Right enough.

The WITNESS: Some part of that business risk must be borne by the banks.

Mr. JAUQUES: Yes, if they make mistakes in judgment, I agree with you that they must pay for their mistakes. But it seems to me the financial system under which this country and every other democracy works, carries within itself the seeds of its own destruction. The whole point of my being here and the whole point of my being in parliament; as a matter of fact, the whole point of my saying what I have said, is to do what I can to preserve the freedom of individuals and to prevent the coming of a totalitarian government. I believe the solution lies in modification of the financial system. I think it is the only alternative, because if you go anywhere you will find that the people are

demanding security; that is what they are demanding after this war. They are terrified at having to go back to the conditions that prevailed in the 30's, and to get that security they are willing to barter a great deal of their individual freedom. Now, I believe, and the people with whom I am associated believe, that it will be possible very largely to guarantee economic security and at the same time not only retain but enlarge our existing individual freedoms and free enterprise, and the things for which as a democracy we have always stood. That is the idea which inspires the group with which I am associated; we believe absolutely in individual enterprise and so forth, and we are most anxious to preserve it and to prevent the advent of a totalitarian government of any kind.

The CHAIRMAN: Are you finished; Mr. Cleaver has asked for the floor?

Mr. JAKES: I have what I think is a very important case to present, and I will not be very long, just a few minutes.

The CHAIRMAN: All right.

By Mr. Jakes:

Q. That is the stand I take, and that is the stand we take. Let us, if I may make use of a very childish illustration, consider the old game of whist. If anybody had suggested a change in the rules, as they used to put it, the experts would have sworn that the game would be going to the dogs—it simply could not be thought of. Whist was a game played according to rules, but eventually it was altered to bridge and finally there was auction bridge and now we have contract, a much better game. The rules were changed. These so-called economic laws, are they laws or are they merely rules?—A. Are what economic laws?

Q. These inexorable laws of economics; are they laws; are they really laws or merely rules?—A. The things I have in mind when I talk about the laws of economics are not rules, they are natural laws in the same sense in which I talk about the law of gravity; but I do not know, sir, what you mean when you talk about the laws of economics.

Q. Let me put it this way: I take it that you accept Mill's statement about supply and demand—I do not know that I can recall the exact wording, but it runs to this effect—that those who sometimes ask if there can be a shortage of purchasing power do not understand what constitutes purchasing power; every producer is in the end a consumer; and if we were to double the production of the country we would double the supply of goods on every market, but by the same stroke we would double the demand. I think you will agree with me that that is one of the foundations of what is known as orthodox economics.—A. I am awfully sorry, sir, I would like to agree with you, but I am not quite sure what you are saying.

Q. I do not suppose I put it in the proper language, but let me put it to you this way then:

Q. Would you say there could not be a chronic shortage of purchasing power?—A. You mean a general all-round shortage of purchasing power?

Q. I do not mean to say that individuals could not have a shortage but do you believe that production would automatically finance consumption?—A. I think the statement is perfectly true that the production of anything which is going to be sold constitutes also a demand for something else. That is not the same thing as to say there could under no imaginable circumstances be a shortage of purchasing power. I can think of circumstances in which there might be a shortage of purchasing power but I do not think I would be helping this committee very much if I were to sit back now and do so.

Q. I am making a general statement. You know how conditions have been for the last one hundred years, certainly longer than I can remember. There have been alternate conditions of prosperity and depression. As soon as you

get into a condition of what might be called practically full employment then you have a condition of what has been called over-production; you produce too much and you have to curtail production and men are thrown out of employment, and so you go on down into a depression?—A. No, you do not have to curtail production just because you have produced too much. The correct statement of what you have done when you reach the edge of the depression is an extraordinarily complicated statement. It is impossible to make a truthful statement on that subject in a sentence or a paragraph.

Q. The term "over-production" has always been used.—A. Oh, all sorts of odds and ends of language are passed around as the small change of conversation. But the fact that we have got in our language certain small change ought not to govern our serious thinking about national problems. Surely the first thing for us to do is the first thing that Socrates did, when he sat down 2,500 years ago to look at a problem. He first asked himself the meaning of each of the words in which a problem had been stated to him and whether there were any implications contained in those words which would start off the thinker "on the wrong foot".

If we were to apply the good old Socratic method to this discussion about money, we should probably begin by throwing away the small change of this conversation, and agreeing on a language which conveyed clearly and exactly the same thing to everybody in the discussion. You would be surprised at the progress that we should then make. But we can make no progress while we still handle this small change of loose terms.

Q. Let me put it to you this way. If there was no idea of over-production during the depression in the thirties why was it that in all countries, at least in all I am familiar with, there was a policy of restricted production. Not only were people paid not to produce but goods which had been produced were destroyed. If that is not proof of the admittance of over-production what does it show?—A. That was being done as a result of a tragic world-wide situation. It was due to a combination of causes of extraordinary complexity, working themselves out in a complex economic system compared with which the most complicated machine that you ever thought of is ridiculously simple.

Q. You would not admit it was an attempt to reduce the volume of goods and, of course, prices, down to meet the shortage of money?—A. When the Brazilians burned a lot of coffee I presume that they did it because they interpreted the depression in terms of what they believed to be over-production of coffee. What I am suggesting to you is that this sort of thing is a ridiculous over-simplification of a very complex problem. As long as we permit ourselves to think along these lines, we shall never even begin to solve our problem.

Q. The fact is it was a condition that prevailed in all countries. Would you admit that the return to gold— —A. I beg your pardon; what was the question?

Q. Would you admit that the return to gold in England in 1925 which, of course, meant a deflationary policy, helped the situation or otherwise?—A. I offer a purely personal opinion, that the return to the gold standard in England in 1925 at the rate of \$4.86 per pound was a mistake in judgment.

Mr. McGEER: Advised by all the bankers in England at the time.

The WITNESS: You may know who gave this advice, to which I was not privy. My knowledge is that a decision was announced by the Chancellor of the Exchequer, to return the pound at a certain moment on a certain day to \$4.86. I believe that it was a mistake to choose that rate; but I am not expressing an opinion as to whether England should have gone back to the gold standard at some other rate. In any case, in the extraordinarily complex evolution of the 1920s, to hold that mistake of judgment responsible for all our subsequent misadventures would be folly that nobody here would dream of countenancing.

By Mr. Jaques:

Q. I did not wish to discuss the gold standard. I merely quoted it because as a consequence of it the supply of money certainly was lessened. I merely asked you if as a result of that conditions were improved or otherwise in Britain and elsewhere? It seems to me in the following thirties things got worse than ever?

The CHAIRMAN: Mr. Jaques, I know you do not want to trespass. There are three other members of the committee who want to ask questions so will you please draw to a conclusion?

Mr. JACQUES: Will you give me until a quarter past five?

The CHAIRMAN: Yes.

By Mr. Jaques:

Q. You would not like to go on record as definitely saying whether production automatically finances consumption?—A. I am so sorry. Again I just missed a word. Would I like to go on record as to what?

Q. One way or the other as to whether production automatically finances consumption?—A. I should like to be quite sure what you mean by all those words.

Q. Simply this; I am not speaking about—A. I mentioned a few minutes ago words which are used as small change but which do not seem to mean the same thing to everybody in the discussion. I am not quite sure what you mean by that statement. If I were sure what you mean I would be delighted to discuss it; but when I am not sure what you mean I do not think it is fair to you that I should say yes or no.

Q. Take any country, not in wartime, but in peacetime. There is a certain volume and a certain value of total production in the country, and the money is distributed through that production of goods in the form of wages, salaries and dividends. Is that volume of money sufficient to meet the prices which producers must charge if they are to recover their costs and at the same time secure for themselves a profit?—A. That is not a volume of money. That is a flow of money. Money is constantly flowing through society in the process of production.

Q. I agree with that.—A. And the income payments which that flow constitutes in their turn become the demand for the goods that have been produced.

Q. Yes, but let me put it this way. You speak of a flow. Is the flow of purchasing power equal to the flow of prices?—A. Where and when?

Q. At any time.—A. Oh, you cannot answer that kind of a question.

Q. During a year.—A. During what year?

Q. In a normal year, when production is at full blast, but not in war time. I am speaking of peace time.—A. When I see a country in which the great masses of the workers are in regular employment, in which the level of prices is fairly stable and in which the level of wages and interest payments and so on is fairly stable, I assume that the flow is working pretty well. I do not find that everywhere I look. In some cases I find it, and in some cases I do not.

Q. The condition does not last?—A. We must recognize, as a matter of observation, that that condition in the past has always been temporary.

Q. Yes. It has always been temporary. What reason would you give for the fact that those conditions have never lasted, that they have always been temporary?—A. Mr. Jaques, you are in danger of launching me on a monologue which would keep me speaking to the empty walls of this room at midnight, because there are a number of trains of causation, all converging here and all very difficult and complicated, some of them not yet fully understood by anybody in the world. I think I have this problem "by the tail", at least enough to

be entitled to say something about it; but I could not possibly deal with it in terms of your phraseology; and I could not possibly begin to deal with it truthfully except at great length, it is so long and complex.

Q. Yes, but just the same it is like any other equation. It works out to a very few figures.—A. Some of the equations that I have seen have been very simple, such as A plus B equals C. But when you get into a complicated problem, the mathematical equation expressing it is just as complex as the problem.

Q. Of course it is a very good camouflage to make any problem as complicated as you can, so that probably nobody understands it.—A. Well, sir, I am sorry you suggest that it is camouflage, not because I feel it is an imputation at myself—

Q. There is no reflection on you.—A. But because it is so dangerously near calling every scientific student of economics in the world a sort of fraud.

Q. I would not say that. But I think they are hard put to it to explain their own mistakes in the past. I must say that.—A. Oh, sir, an economist—and I speak now of the economist in the class room lecturing to students or writing books as a teacher—is not busy explaining his mistakes. An economist is trying to explain how our extraordinary complicated economic system works; and as a rule he has had very little responsibility for it himself. He is trying to understand that, just as a specialist on insects wants to know “wherefor bees have wings.” The world is full of interesting scientific problems and lots of them are very complicated. But fortunately for men of science, most of their subjects do not get debated in parliament.

Q. Would you agree that a favourable balance of trade is a desirable thing? —A. I beg your pardon?

Q. The desire in most countries and of all orthodox economists.—A. Oh, no, no.

Q. Well, most of them.—A. I am awfully sorry, sir, but I cannot agree to that.

Q. Well, all governments are certainly tied to the idea that if you export more than you imported, then you have a favourable balance of trade. I suggested the reason behind that was this: by exporting more than you imported, you could get rid of the goods and the money distributed in wages in producing those goods stayed behind.—A. That idea, sir,—rightly or wrongly—has been denounced by all but four of the economists whom I can remember, in all the languages in which economics have been written.

The CHAIRMAN: Mr. Cleaver has the floor.

By Mr. Cleaver:

Q. Mr. Chairman, I have a few short general questions that I want to ask Mr. Jackson. In regard to our foreign trade, do you agree, Mr. Jackson, that in this country, in a general way we are running into an era when we must be prepared to accept imports of practically the same value as our exports?—A. I should think that is very possibly true.

Q. Yes. Leaving out of the picture the exceptional cases of debtor and creditor nations, that same proposition should hold true of the nations of the world?—A. Well, every nation has a different structure in its balance of international payments. No two nations have a balance of international payments which exactly matches, and we are a little in danger when we start generalizing about nations at large. I took it that the question—

Q. I will withdraw that question, and I am content with your first answer. Once you concede that fact that Canada, as a nation, on the whole must be prepared in the future, with respect to its foreign trade, to accept imports of about the same value as our exports, are we not then driven to this second conclusion, that if we are to maintain our full productive capacity, the over-all

standard of living in Canada must be higher to consume our maximum production if we are to have maximum prosperity?—A. I do not draw that conclusion from the facts as stated quite in that form, sir. First of all, I said I was inclined to think that this was quite possibly the case, when you spoke about the necessity for a large increase of imports. We none of us know what we are going to face in the future. We do not even know what the government of Canada is going to do in the future.

Mr. McGEER: The government itself does not know.

The WITNESS: For example, I can conceive that we may possibly decide consciously to carry on in peace time, for a period of years and on a large scale (possibly not as large as at present) the system of mutual aid. That would be, as it were, the self-financing of a large part of Canada's exports, just as a large part of them are self-financed at the present date.

Mr. CLEAVER: Shall I put it this way—

The WITNESS: May I be forgiven, but I am just trying to make this as complete as I can before I sit down. To the degree that we go in for the self-financing of our exports, it may be less necessary that we should increase our imports. On the other hand, if we did nothing of the kind to maintain artificially a very large volume of exports, then in order to keep our economy in trim, we might find it necessary to import on a considerably larger scale than we are thinking of at the present time. I am just putting it to you that one cannot make answers in black and white to many of these questions, because they depend so much on what is going to be done in a future that we cannot yet foresee precisely.

By Mr. Cleaver:

Q. Yes. Then on the point that you have raised, the point of mutual aid, I of course concede at once that to the extent that we are prepared to give goods away, obviously we have no need to consume those goods. We cannot consume them in Canada. But leaving out of our discussion for the moment the question of mutual aid, let me put it this way. After we have given away all the goods that we wish to give away in mutual aid, then the residue of what we produce in Canada, plus our imports, must be consumed in Canada if we are to be sensible people. That being so, let us look at the picture. You will agree that we have very substantially increased our productivity during the war?—A. It appears to be so.

Q. Arising out of all these questions and answers, do you agree—I believe John Stuart Mill laid down this proposition many years ago—do you agree that for any country to be continuously prosperous the consumption of goods within that country must be almost on a parity with the production of goods within the country?—A. Yes, we must get our production consumed somehow and in some way.

Hon. Mr. HANSON: Yes, but what about exportable surpluses that we hope to have?

Mr. CLEAVER: You have to bring your imports in and you have to consume your imports.

Hon. Mr. HANSON: Would it not be desirable to have a good balance to our credit?

The WITNESS: I think, sir, with all respect, that is a little off the line of the question Mr. Cleaver has asked.

Hon. Mr. HANSON: I know it is, but it is another phase of the same subject.

By Mr. Cleaver:

Q. Coming to my next point arising out of the question. Having freely conceded that our productive capacity has very greatly increased in recent years, unless we are to give away the total amount of that increase, does it not necessarily follow that if we are to be prosperous our standard of living in Canada must correspondingly raise with our ability to produce goods?—

A. I think the things are synonymous, you know. If we are able continuously to maintain maximum production we cannot help but have a high standard of living and a high standard of consumption.

Q. But I put it to you this way, that the only restraint on our using our maximum production of goods would be a lack of buying power in the hands of the buying public?—A. Well, that is another case where the small change of conversation is betraying you, because while it is possible to use that as conventional language, it will not lend itself to a precise statement.

Q. You know the thought I want to convey, would you mind conveying it in correct terms for me?—A. If we fail to maintain the maximum of national income and the maximum of production it will probably be for reasons which are as complicated as the reasons I was talking about with Mr. Jaques. They will not permit themselves to be summed up in any brief formula without misleading the people who use that formula.

If I might digress now to Mr. Hanson's point, which I do not think I understood when he raised it, in using the word "consumption" just now I was not excluding the motion that there should be savings. In our society in which there are savings and there is a production of capital goods, those capital goods come into consumption in the same way as ordinary goods do, although it may take twenty, thirty or forty years to consume capital goods, whereas others might be worn out in six months. The consumption of capital goods is slower, but it is just as real as the consumption of other than capital goods.

Q. I will try to re-word my question, because I would like to have an answer from you if you will be kind enough to give it to me. If for any reason the buying power of the consuming public in Canada falls very substantially below our capacity to produce goods, would not we run into a depression?—

A. That, I think, is perfectly true; but the fact of the buying power of the Canadian public falling substantially below our capacity to produce goods would certainly be due to a great complex of causes. If you want to cure depressions you must attack the complex of causes, and you cannot possibly by-pass the complex of causes (which might cause the ruin of our world) merely by increasing the supply of money.

Q. In regard to the expenditure of capital income on capital goods, do you not distinguish between the two main types of capital goods. Take, for instance, capital goods which satisfy a consumer demand and are enjoyed by the consumer—are actually used and enjoyed by the man who makes it—I refer to the building of a home; I take it you consider that one form of expenditure of capital on capital goods?—A. Yes.

Q. Now, do you agree that there is another type of capital expenditure, namely, the expenditure on machinery, factories and factory equipment for the production of more goods?—A. Yes.

Q. But this second type of expenditure on capital goods—the building of factories. The owners do not consume the factories—the factories are used to produce more goods?—A. If you build a new steel mill—taking our illustration of this morning—you are creating facilities for producing some other form of capital goods; in other words, you are serving the ultimate consumer only indirectly. But in putting up the steel mill, you are making wage payments to the workers from week to week, and those workers take their wages away and directly spend them on consumer goods. Now, I want you to keep your

society in such a balance that there is a constant stream of demand for consumer goods going forward. That demand is going to come from many sources, including the workers employed by the capital goods industries; and I want the relative proportions of those different industries to be such as to keep society in balance. If I might just enlarge on that a little more—and this goes to Mr. Jaques' remarks, although I am afraid it is not very helpful to him—I think the secret of most depression conditions which we have been trying to diagnose is a lack of balance in society. The reasons for this lack of balance bring into an explanation of the picture these complexities to which I have referred.

Q. Just following along that line, I am trying if possible to clarify in my mind the distinction between the results in the investment of capital in homes where the party spending the money consumes and uses the home, on the one hand, and the investment of capital on the other hand, in the production of more goods. Now, if you have a depression period such as we had in 1930 with what appeared to be a surplus of goods, the investment of capital in more factories and more machines or more labour-saving devices during the time, would only accentuate your depression, would it not?—A. Here I am simplifying to a terrible degree of which I am ashamed—but paradoxically enough, the main reason why there was an insufficient demand for consumer goods in the 30's was because demand for capital goods so sharply fell off. If the demand for capital goods had been maintained, then the demand for consumer goods would have been much more satisfactory than it was.

Q. Do you refer to capital goods in the A class capital goods that go into the production of houses and the like or capital goods in the B class?—A. Both.

Q. You refer to both?—A. Yes.

Q. Do you not distinguish in the economic sense between the two?—A. I do not see any useful distinction to make for the purpose of this argument but I am ready to be instructed.

Q. You cannot see any useful distinction between them?—A. At one moment we most need a new steel mill and at another moment we most need houses in which to put the steel workers.

Q. Did we need a new steel mill when we already had more steel products than our people could buy?—A. If you will cite me a case at a given moment I will offer my opinion as to what we need most.

Q. I said to you that during the depression half of our factories were idle simply because they had goods on their shelves which they could not sell.

Mr. JACQUES: Hear, hear.

Q. At the same time there was a surplus, an apparent surplus perhaps and not a true surplus, but an apparent surplus, of consumer goods simply because there was a lack of buying power—surely you do not suggest that some other company should duplicate the Beatty Brothers factory at Fergus to produce more washing machines when they already could not sell the washing machines that they were then trying to put on the market?—A. I suggest only this, sir; that before the depression began the factories which then were producing consumer goods appeared not to be surplus to our needs; in the middle of the depression when things were at their worst, we had the same production facilities, roughly speaking, which were three or four years earlier by no means too much. Before the depression began, the people managing these factories and looking at the briskness of the demand for the product of these factories were ready to build new factories to take care of anticipated new demand. When they decided against building these new factories, they decided against distributing wages to the workers who were going to build these factories, wages which normally would have been spent on consumer goods. They did not cause the

depression; but as a matter of fact they did by their decision not to build new factories make more difficult a situation which would have been difficult anyway.

Q. Am I incorrect when I suggest to you that late in 1929 there was a distinct trend in this direction: Beatty Brothers first sold their washing machines for cash, then when they could not find cash buyers they would sell them part down and part on terms, then in the later part of 1929 it had reached the point where in order to get rid of their machines they would sell them for a dollar down; does not that indicate a distinct trend that would build up toward a depression, a build up toward a shortage of buying power in the hands of the general public? Why would an industry that could originally sell for cash eventually get to the point where they had to be content with a dollar down and the balance on credit unless we were running into an era where there was a contraction of buying power?—A. I do not think I want to talk about Beatty Brothers; of course, I was not familiar with their affairs.

Q. I know, but is that not an indication of the trend in our economic life towards a shortage of buying power in the hands of the public?

Mr. JAKES: It is one of the proofs of it.

The WITNESS: I do not see that myself, sir; no.

Q. Well put it this way; do you agree that in order for a nation to be consistently prosperous that a proper balance must be maintained in regard to the distribution of the national income in the hands of the people; that is that there must be a reasonably even distribution of national income?—A. In order to maintain prosperity?

Q. Yes.—A. I should like to think that some day we will have a reasonably even distribution of income, because I believe that this is what the Lord intended for us; but if you ask me whether it is necessary that income should be distributed evenly in order that society should be prosperous, I must call to your attention the end of the 19th century in the United States, which witnessed the widest discrepancies in wealth that the world had ever seen, but also from time to time the greatest prosperity that the world had ever seen.

Q. Followed by the worst depression?—A. In the 30's.

Q. Yes, and followed by the worst depressions.

Mr. McGEER: Take 1907.

Q. Could you not conceive of a condition of affairs developing within the nation whereby the wealth would be concentrated in the hands of a few so that those few would have the right to and would demand such a share of the annual income that the little fellow at the other end of the scale would not have a sufficient share and would not have buying power?—A. Well, sir, I read all that in Karl Marx in 1909. My Marxian friends tell me that I do not yet understand him. I must confess that your proposition has always left me skeptical.

Mr. McGEER: But until the Soviet Union found a way of putting their nation on its feet?

The WITNESS: Allow me to abolish human liberties in Canada, and even I can give you full employment.

Hon. Mr. HANSON: Yes, Hitler gave Germany full employment.

The CHAIRMAN: We have two other members of the committee who have asked for time.

Mr. CLEAVER: I apologize for monopolizing the floor, Mr. Chairman, I have one or two other questions but I will give the floor to someone else.

By Mr. Graham:

Q. It is not so much that I want to ask questions but I would like to make some use of this witness who I understand is leaving us tonight. So far to-day, Mr. Jackson, you have been putting on a picture that is somewhat negative in its form in discussing the causes of the depression with Mr. McGeer, Mr. Jaques and Mr. Cleaver. I notice in the booklet that you gave to members of the committee, "Sidelights on the Great Depression", is a compilation by you of what you affirmatively think.—A. Of what?

Q. Of what you affirmatively think were the principal causes of the great depression. I would like very much if you would now take that booklet and discuss the statistical or graphed formation contained therein. I notice, for instance, in the frontpiece you say:

When it began to seem likely that I should make an appearance before the Banking and Commerce Committee this session, I reviewed the course of events in Canada from 1928 to 1931 in order to see how the Great Depression began. Somewhat to my surprise, even the naked statistics told a perfectly coherent story. I have thought it might be helpful to reproduce these in the form of pictures.

And I would like you to take that and discuss it for us, and go over chart by chart.

MR. SLAGHT: Mr. Chairman, if I might comment; Mr. Graham did not intend as he started off to indicate that in the time he spent with Mr. McGeer Professor Jackson's position was a negative one. I really do not think that is fair to Mr. Jackson. I thought he assented to many things and made many observations that were quite helpful.

MR. GRAHAM: Then I will put it this way, Mr. Chairman; that Professor Jackson just a few moments ago put it pointedly that he did not agree that the solution of the causes of depression either past or future could be found wholly in the expansion of the Bank of Canada money. That is a negative way of putting it. For my part I want the story as told by Mr. Jackson.

THE WITNESS: I perhaps owe an apology to Mr. Cleaver and Mr. Jaques, and possibly Mr. McGeer—

MR. JAUQUES: I would like to make one statement clear. I take from Mr. Cleaver's remarks that he assumes that the movement with which I am associated believes or accepts the old idea the poor are poor because the rich are rich; we always point out the fallacy of that, and we say this, that if you were to distribute the income equally in the country that you would not in so doing be sharing riches, you would be merely sharing poverty and the poor are not poor because the rich are rich.

MR. GRAHAM: Go ahead, Mr. Jackson.

THE WITNESS: Am I to go ahead, Mr. Chairman?

THE CHAIRMAN: Yes, please.

THE WITNESS: I owe an apology to Mr. Cleaver and Mr. Jaques and possibly also to Mr. McGeer, for having been an unsatisfactory witness this afternoon. That is not due to a desire to fence with anybody, as I hope they will realize, but is merely due to the danger of dealing in formulae. These problems are incredibly complicated. In a discussion like this it is very difficult for a witness to be quite honest with himself, without sometimes appearing to fence with his examiner. But that has been by no means my intention.

To come to Mr. Graham, let me say first that this little selection of diagrams is not a theoretical document and is not an attempt to explain why the depression occurred. If one wants to go into that question, I think one is obliged to

start at least as far back as 1914, and to discuss the whole subject on a global basis. In these diagrams I merely bring certain facts to the committee's attention, which are incontrovertible; but which are not offered as a full or a theoretical explanation as to why the depression occurred. The chain of causation goes a long, long way back; and one must start somewhere.

There is a list of diagrams inside this booklet, which I will not recapitulate, arranged as far as possible in the same order in which came the turning points of events. I desire you now merely to look at the diagrams successively. To what is printed here I will add very little except this, that it may be helpful to members if I give them the percentages of change represented by some of the declines in some of these series.

The first sign of change I could find in the twelve series which I came to study was a drop in Canada's merchandise exports. I smoothed it—because the variations from month to month are very wide as everyone can see—using the simplest conventional method of smoothing which is the twelve-months moving average centred. (It will probably be granted that if this were taken to the Dominion Bureau of Statistics and their best mathematician were to make lines of trend on a mathematical basis, he would get pretty much the same results.)

So far as merchandise exports are concerned—and from here on I refer only to the twelve months moving averages centred—the decline began in February, 1929. By reference to the diagram you can see it was unbroken and continuous, to the point at which the diagram ends which is the 1st of April, 1931. (This date was chosen arbitrarily, because the diagrams must end somewhere.) Our merchandise exports, measured by this method, dropped by slightly more than 56 per cent between February, 1929, when the decline began, and April, 1931. That was bound to produce consequences.

By Mr. McGeer:

Q. Just before you leave diagram 1 you have got J, M, M, J, S, N? I do not know what that means.—A. January, March and so on.

Q. January, March, May, June, September, November.—A. That is it.

Q. Before you leave that diagram that would mean, I take it, that we lost the benefit of the sale of whatever exports we lost?—A. Yes.

Q. At the same time we had a similar story in our imports, did we not?—A. I cannot—

Q. Let me show you the diagram which was given in our year book showing practically the same story. I think you will see there that proportionately our imports declined at exactly the same rate. The two lines come down almost together.—A. It is very hard for me to dogmatize on the basis of your diagram in the Canada Year Book, but if we were to take this diagram as to timing—

Q. The statement is that imports followed almost the same rate as exports?—A. One would find that as between 1930 and 1931 the decline in our imports was almost infinitesimally small whereas the decline in our exports was very rapid. I would say you have two quite different experiences here.

Mr. SLAGHT: I cannot follow that, that in 1930 exports were at their maximum. I do not read your chart that way.

Hon. Mr. HANSON: He is reading from the other chart. They do not agree, that is all. Is that not it?

Mr. SLAGHT: You were not reading from your own chart?

The WITNESS: No, I was then speaking about the Canada Year Book, and the chart is made up on a totally different basis. The statement I made is true about the Canada Year Book but it has no reference to this at all.

By Mr. McGeer:

Q. What I am pointing out to you is this. I take it on this chart the maximum of exports in 1929 was \$1,400,000,000, and the maximum of the im-

ports at that same time was slightly over \$1,200,000,000. They only started to decline—

Mr. NOSEWORTHY: What year is that?

Mr. McGEER: In 1929. Exports fell rather precipitantly until 1930, or before 1930 is when exports and imports started to fall together, and exports fell to 1933 to a low of \$600,000,000, and imports fell to a low of \$400,000,000. Therefore, in round figures, we have a decline from \$1,400,000,000 to roughly \$600,000,000 in exports and a decline from \$1,200,000,000 to \$400,000,000 in imports during the years of the depression up to 1933.—A. The amplitude of the changes was about the same but the timing was not the same.

Q. But to get the correct picture of the effect of the decline of exports on a country you must add to that picture the decline of its imports as well because while we failed to get money abroad for our exports we also ceased to spend money abroad for our imports?—A. We did.

M. GRAHAM: It is always a two-way track.

Mr. McGEER: It is bound to be.

Mr. GRAHAM: Would you put on the record the year of the Year Book and the page?

Mr. McGEER: This year is 1934-35 and the page is 553, but it is a study that has been continuously presented from both sides of the picture by the Department of Trade and Commerce and it is discussed fully and dealt with in the succeeding year books even more extensively than in this one.

Hon. Mr. HANSON: Let Mr. Jackson continue.

The CHAIRMAN: Yes; proceed, Mr. Jackson.

Mr. McGEER: The only point I want to draw the attention of the committee to is that this is only one side of the external trade picture.

Mr. SLAGHT: And the Year Book is issued as the government authority.

Mr. GRAHAM: Of course, I lay it down as an axiom, Mr. Jackson, that since you must balance your exports and your imports they will, over a given length of time, be roughly the same.

The WITNESS: Of course, the sources of our facts in this booklet are exactly the same as the sources in the Canada Year Book. In fact, our figures were taken out of the Year Book in many cases.

By Mr. McGeer:

Q. The only difference is that the Year Book presents both sides of the story and you just present one side.—A. It is quite true that I do not present our import figures. I do not present them because the timing is so different. But this is an omission which I can rectify. Not for the purposes of this committee, but for Mr. McGeer's private benefit, I shall be delighted to make an exactly corresponding chart of Canada's imports.

Q. We have it all here.—A. I will photograph it and send it to you.

Q. We have it all here. As a matter of fact, all that information in the chart is in the Year Book. We have all that information.

The CHAIRMAN: Proceed, Mr. Jackson.

Mr. NOSEWORTHY: Would you mind pointing out the difference in timing you referred to?

The WITNESS: To repeat —

The CHAIRMAN: Mr. Jackson did point out the difference.

Hon. Mr. HANSON: Yes.

The CHAIRMAN: I think you had better speed along, Mr. Jackson.

The WITNESS: We find a precipitate fall in imports beginning about twelve months later than the precipitate fall in exports. We deal with the facts chronologically. The first thing I point out is the drop in merchandise exports, beginning in February, 1929.

On the next page there is a diagram on which I do not think there is any point in dwelling long. It is with regard to the fall in the stock market which, measured by this same method, shows a drop of 51·7 per cent.

By Mr. Slaght:

Q. Before you leave that, may I ask one question? Would it be true that the terrific speculation that led us up to the peak in diagram 2 of stock market speculation was only possible because the bankers financed the brokers who required to borrow money in order to carry the marginal transactions for their clients, and that 90 per cent of the transactions in that year and a half were marginal?—A. I think we could agree that in those years we were all of us slightly mad; and I include the bankers in that statement.

By Mr. McGeer:

Q. Perhaps we should add ourselves.—A. Oh, I included myself most carefully in that statement.

Q. To go along with that chart you are now discussing, would not a chart of the decline in the call loans of the banks be appropriate as explaining the drop in the stock market as much as the export trade?—A. I do not think it would explain the drop. I am merely giving you personal impressions here. I think that the drop occurred not because the loans were called. The drop began—

Q. Let me put this to you.

Hon. Mr. HANSON: Let him finish.

Mr. McGEER: I was in the stock market in 1929. I was told by my banker that I had to pay my loan. I said, "Well, are you not in the business of making money?" My loan was well secured, because I was not a margin gambler. I said to him, "Are you calling the loans of the margin people at the same time you are calling mine?" He said, "Yes." I said, "What is going to happen to the market if the banks call all these loans and everybody has got to go out and sell?" He said, "I do not know." I said, "I do." Then I got on the telephone, phoned the broker and said, "Sell my stock."

The CHAIRMAN: Mr. Jackson, I think you had better proceed.

The WITNESS: I think this is the least important diagram.

Mr. GRAHAM: I am anxious, Mr. Chairman, that Professor Jackson does not hurry. I am anxious to get this story on the record. I think it is the most constructive portion of it; and even if we have to sit past six o'clock or sit to-night, I am anxious to have it on the record. Professor Jackson has to go to-night, has he?

The WITNESS: I must leave town to-night.

The CHAIRMAN: Mr. Graham, I have already spoken to Mr. Jackson and he is quite content to stay until 6.30.

Hon. Mr. HANSON: All right.

Mr. SLAGHT: Perhaps, instead of detaining the committee, after he goes as far as he can he could file a very brief memorandum which could be read on his behalf dealing with the subsequent diagrams; it need not be elaborate, but in half a page he might give an explanation.

The WITNESS: There is half a page here against each diagram already.

Mr. SLAGHT: I know. But you could give anything that you think we need in addition to what is in the memorandum already there.

The WITNESS: I will take it under advisement.

The CHAIRMAN: Proceed.

The WITNESS: May I proceed with it?

The CHAIRMAN: Yes, please do.

The WITNESS: I merely record that, by chance more than anything else, the drop in the stock market in this period was just a little more than 51 per cent or almost exactly the same as the drop in the country's exports. Then I reach a more interesting diagram, No. 3.

By Hon. Mr. Hanson:

Q. Before you leave that, is there any relation between the two to bring them on the same level, or is it just a coincidence?—A. I think it is a coincidence.

Q. A coincidence. I would say the same thing. Go on.—A. I turn now to No. 3 which is more interesting and that is the combined demand and notice deposits of banks. Shortly after the fall in exports began, this curve illustrating the combined demand and notice deposits of the banks showed signs of falling also. The top figure is \$2,190,000,000 and the bottom figure on this diagram is \$2,033,000,000, and the shrinkage in demand and notice deposits is therefore just over 7 per cent.

By Mr. Graham:

Q. That is not very drastic.—A. Well, it is very small compared with the shrinkage in the country's exports.

Q. Yes?—A. Now, there are two things about banking activity. One is the amount of deposits to be checked against and the other is the readiness of the public to check against those deposits. I then take the rate of turnover of bank deposits—that is in diagram 4—which is the result of dividing the total of deposits into the debits to individual accounts, which are published every month by the Department of Finance. Here we have a shrinkage which begins in August, 1929, soon after the decline in the total of deposits began, and about six months after the decline in the country's exports began. Here you have a shrinkage (or a drop in this diagram) to the end of the period of $24\frac{1}{2}$ per cent. In other words, you have a 7 per cent shrinkage in the amount of deposits subject to check and a $24\frac{1}{2}$ per cent shrinkage in the rate at which cheques are being drawn by the public.

By Hon. Mr. Hanson:

Q. That is, in turnover?—A. The rate of turnover is the rate at which you pull your cheque book out of your pocket.

By Mr. Graham:

Q. That is an indication of decreased trading transactions between persons?—A. Yes.

Q. Yes.—A. In very crude terms, it is a hoarding of bank deposits by the public. I draw attention to it, if I may, sir, because here you have something which is very difficult for the Central Bank to deal with. The Central bank has the power to expand by indirect means the total deposit currency in the country; if at any time the central bank thinks the deposit currency is too small it can bring it up. But here is a force much stronger than the shrinkage in the total bank of deposits, and exercised entirely at the option of the millions of bank depositors, operating on $3\frac{1}{2}$ times the scale of the shrinkage of bank deposits. What central banks are going to do about that in the brave new world to come, I do not know.

Hon. Mr. HANSON: Nor does anybody else.

The WITNESS: I go on from there and take the index of employment in manufacturing industries, simply because that is the next series to move. There you will notice an extraordinary smooth curve as if it had been drawn by a pair of compasses, the top of which was reached in July, 1929. In August, 1929, the same month in which the rate of turnover of bank deposits began to fall so drastically, the number of persons employed in Canadian factories began to fall also. The drop in the number of employees in factories during this period is $15\frac{1}{2}$ per cent.

Next follows the index of employment in all industries which, of course, includes manufacturing industries. This begins to decline later, in October, 1929, and the drop in it is slightly less than 12 per cent.

Opposite diagram 7 I remark, "by this time in 1929 (though the public at large was not yet aware of it) the great depression had already reached this Dominion and become widespread". In diagram 7 I show the volume of Canada's commercial credit, which is the combined security holdings of banks and other current loans and discounts in Canada.

I should, perhaps, call to the notice of members here that these facts cover a period before the Bank of Canada came into being, so that these movements were not subject to central bank control.

In this case, as you can see, the volume of credit continued to increase until fairly late in 1929; in October, 1929, the volume of bank credit began to shrink. It continued to shrink for just less than a year. The shrinkage lasted until September, 1930; and thereafter the volume of bank credit began to grow once more.

Now, I split up the two elements of the volume of credit, taking first the aggregate security holdings of the chartered banks. You notice that before the depression began the banks were already sellers of securities. That curve almost imperceptibly trended downward all through 1928 and in the first half of 1929. Then the slide was accelerated somewhat, and the banks sold securities a little faster than before until April, 1930. Between 1930 and the top figure here in January, 1928 the banks' aggregate security holdings—the figure seems silly now, it is so small—shrank from \$534 million to a little under \$448 million, or by 16 per cent.

From April, 1930, as you can see, the trend was upward. The top figure on the diagram in April, 1931, is over \$640 million. By the spring of 1931 the banks were holding a considerable amount more of securities, than they had been holding in the palmy days of the boom.

Now as to current loans and discounts. They went on rising for a considerable time after, we might agree, the depression had actually begun. The curve goes upward until the fall of 1929, and it does not definitely begin to fall until some time in 1930. Other current loans and discounts in this trend line begin to turn downwards in April, 1930. The top figure of the diagram is above the bottom figure by about 17 per cent.

Following that is the wholesale prices of manufactured goods in Canada which, like the security holdings of the banks, trended slightly downwards even during the boom. You can see them sliding slowly down in 1928 and 1929; and then in 1930, about twelve months after the first signs of disturbance appeared, the landslide begins. There is a fall of about $16\frac{1}{2}$ per cent in the period covered by this diagram, relating to the prices of manufactured goods.

Here is the index of all wholesale prices in Canada in diagram 11, the drop beginning slightly later than the drop in the prices of manufactured goods, but amounting to 32 per cent.

Finally, the most tragic diagram on the list, and one that ought to be burned into all memories, illustrates changes in the wholesale prices of Canadian

farm products. The strange thing here is that while there was a drop, in this series from the beginning of 1928 until the end of 1928 there was a quite remarkable recovery in 1929, which is shown above in the trend line. The landslide in the price of Canadian farm products, in spite of the early falling off of Canada's exports, did not begin till 1930 had dawned. The fall from the top in 1929 to the end of the period was $41\frac{1}{2}$ per cent.

And now, sir, I offer this booklet for what it may be worth as a collection of facts. I began by saying that it did not contain theory. It is not an attempt to tell why the depression occurred. On the last page I record also that it is an unfinished story; it merely shows events at the beginning of the great depression. But so much has been said in this committee, so much in the House of Commons, about what the causes of the great depression were, so many remarks have been made with implications, that I thought it a matter of record worth examination.

Mr. GRAHAM: Let us see your diagram 3, combined demand and note deposits, I notice a trend from the beginning of 1928 to the month of March 1931 is not in a spiral, it is not as precipitate as it is shown in some other diagrams. I think it follows therefore that that is to some extent at least a refutation of the suggestion that has been made here—and I am not arguing against that for a moment—that the making of a loan creates a deposit. It follows of course that the reverse would be true, that the calling in of a loan extinguishes a deposit.

The WITNESS: Yes.

By Mr. Graham:

Q. So that with the balanced line beginning in 1928 and 1931 obviously the state of deposits, demand and note, do not indicate any drastic calling in on the part of the bankers; does that not follow?—A. Yes, that is quite true. That is the result, of course, of many forces; the failure to export goods that merchants had expected to export would react upon that curve of deposits; losses in the stock market would react upon it; a decision by commercial borrowers from the bank to cut down their loans would react upon the deposits; and of course if a banker says to the borrower he must curtail his line of credit, that reacts on the total of deposits also. But the net results of all these causes of decline appears to be surprisingly small.

Q. These deposits would be, as Mr. McGeer suggests, part of what we would call the media of exchange?—A. Yes, the greater part.

Q. Therefore the medium of exchange was there; it might point out that there was an inclination on the part of the depositors to hoard their deposits?—A. Yes; the depositors of this period found themselves for a combination of reasons with about 7 per cent less deposits against which to draw cheques; but their disposition to hoard was so strong, that they voluntarily restricted the rate at which they were drawing on these deposits by nearly 25 per cent.

Q. I notice that you put right as diagram number one the precipitate drop in exports?—A. That fits in of course with my philosophy.

Q. Yes.—A. And it fits in with what I believe to be the truth; that the depression came to Canada from outside, and such was the state of the world that no human wisdom in Canada could have saved us from the last depression. But I did not put that diagram in as number one because it tied in with my philosophy; I put it in as number one because in the chronological sequence of events, the shrinkage of our exports was the first of our calamities.

Mr. McILRAITH: Do you think that these things make a depression?

The WITNESS: I do not mean to say that we were all of us wise in our handling of it. I think in many ways we were very muddled. I hold no brief

for the government or business men or anyone else of that day; still less can I claim that I knew then what it was all about. We merely made all sorts of mistakes. Say that no human agency could have saved us in Canada from the depression's impact. We were living in a very sick world.

Mr. GRAHAM: I am not going to do it but I had hoped there would be time for Professor Jackson to have gone through hurriedly the book which he published in—what year was it?

The WITNESS: At the beginning of this year.

Mr. GRAHAM: Known as the "Facts in the Case". I would like, however, for the use of the committee to secure one copy to file with its records, to be filed as an exhibit as I think it will be constantly referred to because it deals with a great many things of prime importance. It explains in my opinion the basic reason for the depression. There is one point which I would like to call particularly to the attention of the committee, and that is Chapter 11 in connection with a list of documents which you put in there; and that is the index of wholesale prices of Canadian farm products; and as you pointed out, the most disastrous of all trends is shown in that particular chart. I notice that in this particular volume, "The Facts in the Case", you make this statement:—

It is not unusual for business men to pay quite substantial subscriptions for what are called "business barometers". They wish to be told in advance (and very naturally) when a change is coming in the "market weather". Here is a business barometer that any one, without cost, can make for himself. Let him get a couple of figures once a month from Ottawa—the government indexes of general wholesale prices and of the prices of Canadian farm products—and let him look at them together. In other words, let him keep up to date the tables in appendix "D". Not all the skill in the world could make a much better peacetime barometer for us. For our present purposes, this rough and ready, but very sensitive indicator directly serves to stress the fact—already plain before us—that we must streamline the whole structure of our costs and prices, not merely conduct "forced sales" of export merchandise—if we desire to maintain a vigorous and healthy Canada.

I wanted to try and emphasize it on the record of this committee that that is a very important barometer of prosperity in Canada. Is that not true?—

A. Very much so.

Q. And I take it that again, since it would be impossible for the Canadian people to consume all of the surplus potential food production in this country, we must, if we are to pay attention to that barometer, seek wider markets with as much ability and constructive co-operation with other countries as we can possibly do?—A. Absolutely. May I just make one observation on the last point of Mr. Graham? It did not occur to me to repeat here the last sentence that Mr. Graham read from my little book, on the necessity for streamlining our costs of production if we wish to hold our own in this post-war world; but it does perhaps allow me to come back to the brief which Mr. Heywood and I brought before this body last week. We believe that it is necessary for this Dominion as a whole, in all our producing and financial organizations, to streamline its costs meticulously—because ahead of us are the ten most difficult years in Canada's history.

If we have one other point to make before this committee, besides the necessity for maintaining a strong banking system, equal to Canada's needs, our second point would be that this country needs the most economical service which a strong banking service can give.

I took issue with Mr. Slaght last week—and I regret his absence now, but perhaps it is permissible to recall the matter, because I shall not be here again myself—about this proposed amendment to clause 59. I stood—and stand—on this ground. His argument for the proposed amendment was not that it would strengthen the banking system—a possible justification for increasing the banks' cash reserves. If it could be maintained with the slightest colour of reason that our banks were maintaining inadequate cash reserves, then we would have to consider the most appropriate method of compelling them to keep enough. But, it appears, everyone is agreed that the cash reserves of the banks are adequate to the business needs of the public, and adequate for Canada's safety. If these reserves are adequate already by those two tests, one can only strengthen them by putting up the cost of banking, that is, by reversing the process recommended in that paragraph in my little book, which Mr. Graham was good enough to read. We have now to get back our international markets—if we can—and that means working harder than someone else works: finding new methods all the time of doing things economically. The consequences of a failure to do this will be too bad, not for some individual who fails to make a particular sale, but for Canada.

Would it not look a little strange in this process of trying to streamline all our other costs, if parliament in its wisdom should amend a clause in the Bank Act, raising the cost of commercial banking at this time and so neutralizing some other economy which has just been made elsewhere?

Mr. RYAN: Mr. Chairman, may I ask Mr. Jackson a question?

The CHAIRMAN: Yes.

By Mr. Ryan:

Q. In regard to your conclusions in regard to the Bank of Canada and the commercial banking system, do I understand that you arrived at those conclusions, according to the answers you have given before this committee, after you had made a study of the speech or the presentation made by the Minister of Finance on May 2 when he presented Bill No. 91, and after study of Bill 91, or had you made a study of this question of banking previous to May, such as to have convinced you that the system that we had or the system that we will have after this new franchise is granted to the banks, and the system we will have in the future will be sufficient so as to stabilize employment and look after the commercial business and the industrial business of the country?—A. I read the minister's speech with very great care; and of course I read Bill No. 91 with very great care. But I did not form the opinions I have expressed here at that late date. Just for the record, and without claiming any right to dogmatize on these things, I suppose I began to learn what banking was about in 1909, when I sat at the feet of Lord Keynes who has become orthodoxy personified now; and have been paid by the University of Toronto, or by somebody or other, to make a study of the banking system ever since that time. For twenty-four years I have studied the banking system of Canada from outside the banks. For eight years I have studied it from inside one of the Canadian commercial banks. For four years I studied it from inside a central bank; not from inside the Bank of Canada but from inside a central bank which is not unfriendly to the Bank of Canada and whose servants are not unkindly treated by the Bank of Canada. Thus it is perhaps reasonable to claim that I was given a good inside look at the Canadian banking system, besides having spent about half of my life examining it from outside.

Q. So you are convinced, as you have stated here, Mr. Jackson, that the Bank of Canada or the government of this country has full control over the credit and currency of the country?—A. Absolutely. I said that this afternoon.

Q. Yes. I just wanted to have you repeat it. You came to that conclusion previous to May?—A. Oh, yes.

Q. Due to your study?—A. If I may I should like to put it this way. Mr. Towers has spent a long time this session elaborating, and one may fairly say proving, that statement before this committee. If I remember rightly, he spent about a month in 1939 going over exactly the same ground before this committee and his evidence in 1939 is already regarded as a classic exposition of central banking.

I have known Mr. Towers well in various capacities for a number of years, and we have talked these things over pretty freely. So far as I know, there are no differences between our points of view on this subject.

You have asked if I held my present opinion before last May. Let me say this. If when I was lecturing on banking in 1924, we had then had a central bank, and if that central bank had then possessed the powers now possessed by the Bank of Canada, these things that I have said in this committee room would all of them a generation ago have been standard parts of my lecture course at Toronto.

Q. With the power it possesses at the present or it will possess afterwards?—A. No, at the present time before Bill 91 is passed.

Q. Had they sufficient powers previous to the present time?—A. Speaking in general terms, I say that for a number of years the commercial banks have been in the hands of the Bank of Canada. Whether, in detail, some bright man will someday bring about improvements, I do not know. My clients did not send me here to say that the Bank Act is 100 per cent perfect, or to say that the government amendments to Bill 91 are perfect. They themselves offered one or two very minor suggestions to make it still better. But my clients know that the volume of credit in this Dominion is regulated by the central bank. They deal with the commercial banks as retailers of this credit; and are satisfied with the system.

By Mr. Noseworthy:

Q. Mr. Chairman, I am sorry that the time has expired and also that I was kept away from the committee this afternoon by my attendance in the house; but I would like, if I am permitted—and I am sorry Mr. Jackson cannot be here longer because I would like to have questioned him for about an hour—to ask him one or two questions. He has referred to his clients a number of times, and at the beginning, two or three days ago, he put in a list of organizations that constitute the federation he represents, and I think amongst them is the Association of Retail Merchants, an association made up of small independent merchants across Canada; is that not so?—A. I think so. It is on the record.

Q. It is one of the associations?—A. The Retail Merchants Association.

Q. I am referring to the federation?—A. The Retail Merchants Association is a member of the Canadian Retail Federation. Is that the question?

Q. Yes. You told us that the executive of these constituent bodies had approved of the brief you submitted. Had the Retail Merchants Association executive approved of that brief?—A. The body of which I was talking was the executive of the Federation. I did not discuss with the executives of the individual associations, members of the Federation, what each of those individual associations wanted; but the Federation is so constituted as to give representation, so far as I know, to all the constituent bodies.

Q. You do not know to what extent these constituent bodies were themselves given an opportunity of approving of the brief presented?—A. I cannot go behind the executive. I met with the executive. I am prepared to file a list of the names of people whom I met. I am prepared to add to that list

the associations in the federation to which they belong. I am prepared to give any information anybody wants about the people with whom I met, but I cannot say how they had primed themselves for the meeting.

Q. Among those people that you met was there a representative of the executive of the Retail Merchants Association that approved of the brief?—A. I would say, speaking off-hand, that there were several; but I would far rather put the facts into the record than give you information which by some mischance might turn out to be wrong. If you will allow me I shall give to the chairman a full list of the names which can go into the record if you like, but I hesitate very much to answer questions where there is even a remote chance that I could not prove what I say.

Q. You spoke of streamlining the cost of production, and since the price of labour is one of the biggest factors entering into the cost of any manufactured article, particularly, I presume that streamlining production would imply keeping the cost of labour down to the lowest possible limit?—A. I make a distinction between labour costs as shown in the cost sheets of a factory, and the rates of wages paid to the labourers. I want rates of wages to be as high as they can be raised, consistently with the safety to the Canadian economy; and at the same time, I want labour costs to be as low as they can be. I have two objectives which it seems to me must be the objectives of every decent thinking Canadian: I want to see wages as high as we can get them and I want to see them rising over a long period of time above whatever point they may have reached; but I want so to streamline our costs that even with rising wages our unit labour cost, in the merchandise that comes out of the factories, is falling. In other words, I want the efficiency of labour to rise even faster if anything than I want wages to rise.

Q. You think that rising costs of wages can be offset by efficiency?—A. That has happened in the past, certainly.

The CHAIRMAN: We will adjourn until to-morrow morning

The committee adjourned to meet Tuesday, July 18, at 11.30 o'clock a.m.

July 18, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: When we adjourned discussion on the bill to hear the representations of the Federation of Retail Merchants we were discussing the amendment proposed to clause 56. Shall the amendment carry?

Mr. McGEER: I think Mr. Slaght is out for a minute. I see his papers there.

The CHAIRMAN: While Mr. Slaght is absent and we are waiting for him, in this 39th session it might be just as well that we have some suggestions, if possible, as to speeding up the work of the committee and reporting back to the house. Have we any suggestions to make in that regard? Have you any, Mr. McGeer?

Mr. McGEER: Well, I would not think there is anything that I have to suggest.

The CHAIRMAN: I cannot hear, Mr. McGeer.

Mr. McGEER: There are some features of the whole problem that have not been dealt with as yet. One is the question of the cost of the operating of the system under which we are now financing public enterprise. That does seem to me to be one thing we should have some information on before we make a report to the house. As far as I am concerned I quite appreciate the need

for getting the bill into the house as quickly as possible. If the house is going to adjourn in the next two weeks it is essential. As far as I am concerned I think I could probably shorten my end of the program by going before the committee as a witness and appearing in that way, without dragging it out by the process of cross-examination.

The CHAIRMAN: You mean make a statement of your position?

Mr. McGEER: Yes.

The CHAIRMAN: That would take about what time?

Mr. McGEER: I do not know.

The CHAIRMAN: An hour or so?

Mr. McGEER: It might take that long or it might take longer.

Hon. Mr. HANSON: You have asked for suggestions. My suggestion is we begin at the beginning and go through this bill and get it reported as quickly as possible with or without amendment. I think we ought to confine ourselves entirely to the bill. If Mr. McGeer wants to make a statement on principle I think the house is the place he should make it on third reading.

The CHAIRMAN: Mr. McNevin?

Mr. McNEVIN: I just wanted to add this, that I think it can truly be said in the discussions before this committee ample latitude and ample time has been given to present all sides of these questions. I am satisfied to get right down to the bill clause by clause, and if there are any amendments vote on them and get through. Let us get the matter through.

The CHAIRMAN: Mr. Slaght, have you any suggestions as to procedure that will speed up the reporting of the bill?

Mr. SLAGHT: I thought that we might deal with the minister's amendment to section 56. Mine was disposed of. I should not think that would take long after the discussion of the other day. Then, it seems to me the next section which involves a difference of viewpoint as to the amendment of this Act is section 59. In my judgment under section 59 lies the crux of the divergent views that have been expressed in the house and here on the subject. If we can get to section 59 I should be very glad to discuss my two amendments and the section together and give the committee my views. Then I think it would be useful if we took a statement from Mr. McGeer. Most of what he would have to say would be with reference to section 59 and the difference between the section as it stands and as it would stand if the amendments were given effect to. Further than that I have no suggestions.

Mr. PERLEY: Mr. Chairman, I think in the number of sessions we have had we have had a pretty general discussion on every part of the bill, principle and everything else. I think in order to hasten it up a little it is time that we start at the first, take it clause by clause, and then after whatever discussion is necessary on each clause vote, get it through, and report it back to the house. I think everybody is anxious to close up in the other chamber. I think the general discussion has been broad enough to cover every point. I think if we take it clause by clause we will make progress in that way.

The CHAIRMAN: Shall the amendment to section 56 carry?

Mr. CLEAVER: The minister's amendment?

The CHAIRMAN: Yes.

Mr. CLEAVER: Carried.

The CHAIRMAN: Carried.

Mr. McGEER: I want to be recorded as voting against that amendment, Mr. Chairman.

Mr. SLAGHT: So do I.

The CHAIRMAN: We will take a show of votes if you want that.

Mr. SLAGHT: Oh, no.

Mr. CLEAVER: Carried on division.

The CHAIRMAN: Carried on division. Shall the clause as amended carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Carried. Section 59; there are some amendments to this section.

Hon. Mr. HANSON: The minister has not given any notice of amendment.

Hon. Mr. ILSLEY: Mr. Slaght's amendments.

Hon. Mr. HANSON: Can we have Mr. Slaght's amendments?

Mr. SLAGHT: Yes.

The CHAIRMAN: The amendment is printed in transaction No. 34 of this committee.

Hon. Mr. HANSON: What is the effect of it, 100 per cent instead of 5 per cent?

The CHAIRMAN:

That a new subsection be added to clause 59 to read as follows:
"The bank shall not make loans to the government of the Dominion of Canada or any department thereof."

There is another one.

Mr. SLAGHT: What page is that?

The CHAIRMAN: It is in the minutes of proceedings No. 34. The second one is:—

That clause 59 be amended by striking out in the second line thereof the word "five" and substituting therefor the words "one hundred", and by inserting before the word "deposit", in the third line thereof, the word "demand".

Those are the two amendments.

Mr. McNEVIN: Question.

Mr. SLAGHT: Mr. Chairman, I desire to speak on the two amendments. For my purpose I can discuss them together.

The CHAIRMAN: I do not want to interrupt but we have had the amendments before us for some time and we have had considerable argument. I take it from you you are simply going to add to what you have already said on the subject?

Mr. SLAGHT: I have said practically nothing on either of these amendments. I read them to the committee and aside from that I have not discussed the matter.

The CHAIRMAN: All right.

Mr. SLAGHT: They involve a new issue that has not been before the committee. In supporting the amendments I want to make my own position clear again, and that is that I have no quarrel with bankers. I regard them as patriotic worthy citizens who have in many respects, under the system which was handed to them evolving seventy-five years ago, carried out their duties in my view in a most excellent manner. I want that understood. My quarrel, if that is the proper word, is with the system. I believe if we remedy it in the two respects which my amendments cover we will do a great service not only to the public but to the bankers themselves because in my judgment—I did not get the interruption, Mr. Hanson.

The CHAIRMAN: I did not hear one. Go ahead.

Mr. SLAGHT: My view is that the two matters constitute a monopoly which the people are concerned with and not prepared to support further. The committee knows my view with regard to nationalization of the banking system. I am opposed to it, but I believe there are possibly two alternatives, to reform it or that it may, much against my wishes, be nationalized.

Let me state the main objectives which these rather formally worded amendments are designed to bring about; first, to retake from the banks for the Canadian people through the government the right to create and control currency and credit; secondly, hereafter when new money has to be created—and I am not an advocate of flooding the country with new money loosely—to issue it into existence through the Bank of Canada without interest instead of borrowing it into existence through the private banks by the use of debt-bearing securities.

My suggestion goes so far as to say the government should do no borrowing whatever from the private banks for public financing for government needs, and that we would, if we put into effect the second amendment, destroy what I regard as the toll gate privilege now enjoyed by the private banks of collecting from the government interest on new money issued on the backing of our national credit, by the banks pretending to lend us money they do not possess but which in reality is our own credit or medium of exchange.

Mr. McNEVIN: Deposits of the people.

Mr. SLAGHT: I beg your pardon, sir?

Mr. McNEVIN: Proceeds of deposits of the people.

Mr. SLAGHT: It is not a matter of proceeds of deposits at all. It is a matter of pen and ink entries made in books whereby they purport to lend nine or ten times more money than they have in cash reserves or deposits. I want to put it in another way and perhaps at least the Liberal members of this committee will recognize this language. I cannot put it any better. It is the language of the present Prime Minister of Canada in parliament in 1933, repeated in 1935 on the public platform, and repeated by me in my campaign. It is one of the platforms on which I was elected and, I venture to say, one on which a great many other members of the Liberal party were elected. I do not expect the same sympathy from my friends Mr. Jackman and Mr. Hanson, although Mr. Perley in some respects, I believe, may see fit to endorse this principle and I hope these amendments. I quote, and I could not put it half as well:—

Once a nation parts with the control of its currency and credit, it matters not who makes the nation's laws. Usury once in control will wreck any nation. Until the control of the issue of currency and credit shall be restored to government and recognized as its most conspicuous and sacred responsibility, all talk of democracy is idle and futile.

Mr. McNEVIN: That is just what we have done with the Bank of Canada.

Mr. SLAGHT: Continuing:—

To regain for the nation what has thus been lost will continue to be a first objective of Liberal effort.

Hon. Mr. HANSON: The first objective?

Mr. SLAGHT: A first objective. I stand on that declaration of policy to-day. Let me say this. I am not putting this forward politically at all, because I have found that some of the members of my party are apparently out of accord with that declaration of principle.

Some Hon. MEMBERS: No, no.

Mr. SLAGHT: Let me say that I have not known of any Liberal gathering or any government caucus where the party has avowedly and openly declared their abandonment of that principle.

The CHAIRMAN: Could we not leave party discussion out of the committee's deliberations?

Mr. SLAGHT: I am not dealing with party discussion. I am telling you that I was elected on that platform.

The CHAIRMAN: Well, I thought that ought to be left out of a discussion such as we are having in this committee.

Mr. SLAGHT: Let me again quote the Prime Minister. I suppose the chairman has no objection to that. He is Prime Minister as well as leader of the Liberal party.

The CHAIRMAN: I have no objection at all, Mr. Slaght; the only thing is that we have had that quotation given many times in this committee already.

Mr. SLAGHT: But not by me.

The CHAIRMAN: No; not by you but by other members.

Mr. SLAGHT: Well, after all, I am addressing the committee. Again I come to the Prime Minister.

The CHAIRMAN: Avoid repetition, if possible.

Mr. SLAGHT: As recently as June 20, 1944, when, in introducing bill No. 82 in the house to establish a department of reconstruction, he then referred to "restoring and increasing the capital equipment of the nation" and he added this: "It is in connection with this economic reconstruction that the new Department of Reconstruction of the federal government will be primarily concerned." Who will gainsay the fact that in all our post-war reforms, Mr. Chairman, the question of economic reform stands in the forefront and should be our primary concern? I want to quote you further the language of Mr. Graham Towers that has been quoted before and is contained in his annual report, when he warned us that there lie ahead to be solved by government, as well as others, problems of unprecedented magnitude. Is there any member who will quarrel with those solemn statements of the Prime Minister and of the Governor of the Bank of Canada? I do not want my position misunderstood. I would preserve—

The CHAIRMAN: Order, please. Attention, please.

Mr. MACDONALD (*Brantford*): I am sorry, Mr. Chairman.

Mr. SLAGHT: I desire to preserve for the private banks the right to carry on the commercial banking business of the country and the right to lend up to the amount of their capital and their reserves, and an amount equivalent to the time deposits; that is the saving deposits of their customers. But beyond that limit I desire that they not be permitted to lend money except to the extent that they hold 100 per cent security in cash reserves either in currency of the Bank of Canada or credit on deposit with the bank. That policy, if adopted, would save this country from the ever-increasing public debt which has reached already or will have reached the appalling total—estimated by Mr. Towers for me in this committee—at the end of this year, 1944, of 16 billion dollars. That includes 13 billion dollars of dominion debt, plus the provincial and municipal borrowings on which the taxpayer must pay interest. My suggestion is that we have got to call a halt to that ever-increasing pyramiding upwards of the debt burden of the country or we will run into the national disaster of repudiation.

Now, again do not take my word for it. I should like to quote you Dr. Clark, our Deputy Minister here, who made this answer to my friend Mr. McGeer, at page 899 in reply to this question:

Q. . . . I think you will agree with me we cannot go on pyramiding the debt, the interest-bearing debt, of the people of Canada indefinitely?

Dr. Clark: Not indefinitely.

Professor Jackson was asked the same question and he said he could not say when the saturation point would be reached. He would not venture to say that, but he agreed with the principle that we cannot go on pyramiding this debt and adding to it. The committee will recall what Mr. Towers told me in answer to

questions as to whether he felt that after the war, in the early reconstruction period, we could look forward to being able to tax and borrow from the public through victory loans enough to meet our current post-war peace needs. He said he did not think we could. He thought there would be a gap as there has arisen a gap through the terrific strain of this war. What remedy do my friends of the Progressive Conservative party offer? I am not putting this politically, but I want to see what remedies there are offered for calling a halt to the increasing pyramiding of the debt, because my amendments do offer a remedy; and you are bound to look at that in view of what I have given you as the opinion of men who know what we are running into. You may reject them of course. There is one other remedy offered, don't let us forget; that is offered by the C.C.F., and they say that the nationalization of the private banks will stop this ever-increasing debt burden which all the experts say we cannot continue to go on with.

Hon. Mr. ILSLEY: I do not want to interrupt you.

Mr. SLAGHT: I welcome any interruptions from you, Mr. Minister.

Hon. Mr. ILSLEY: But just for the purpose of getting it clear; your remedy does not contemplate the cessation of borrowing from the public, that is understood?

Mr. SLAGHT: No.

Hon. Mr. ILSLEY: It does not, as you said, contemplate the loose creation of national currency, which would be the same as borrowing from the Bank of Canada; so I do not see that your remedy stops the pyramiding of debt, except to a very minor degree.

Mr. SLAGHT: Well, if you regard \$2,700,000,000 in Canada's three and a half years as a minor degree, I cannot agree with you. You would have saved every dollar of that debt burden on the people to-day if you had used the Bank of Canada, if you had maintained Section 59 as I put it. Surely that could not be called a minor obligation. Supposing this war goes on for two and a half more years and you have \$2 billion more added, piling up from year to year—that, Mr. Minister, is where you and I differ. If that is a minor matter for the taxpayers, if you consider that a minor matter, I suggest that you are wrong.

Mr. MACDONALD (*Brantford*): You do not propose to touch the \$2,700,000,000?

Mr. SLAGHT: Pardon?

Mr. MACDONALD: —in the hands of the banks now, do you?

Mr. SLAGHT: I do not propose in this amendment to do so. But I have my views about that, although I am not putting them forward because you and the government in your good judgment believe you were right in giving these bankers that much federal security which you agreed to pay them. You never can reduce the principal of what you owe them in our lifetime and no one will assert you hope to do that. You better go on and renew and renew that at a certain agreed rate of interest.

Mr. MACDONALD (*Brantford*): Why not pay off that debt the same way as you propose to pay off future debts?

Mr. SLAGHT: You discuss that if you like.

Mr. MACDONALD: I understood you to say that you welcomed questions.

Mr. SLAGHT: All right then, I will direct my mind to that, and I will express my view on it. What is involved in this amendment is not tinkering with that for a moment but seeing to it that it cannot go on any longer and there is the Bank of Canada to go to and that involves consideration of the very problems that are put forward as to why we must not go to the Bank of Canada—if you will leave me alone I will deal with it later.

Mr. MACDONALD: My question is, why tinker with the debts of the future, why not tinker with the debts of the past?

Mr. SLAGHT: All right, Mr. Macdonald, I will say this to you; that if you permitted these bankers to issue \$2,700,000,000 of credit to the Minister of Finance which he has checked against and taken and spent and has outstanding and for which in their vaults they have the locked-up securities of two different types or more showing that the dominion government owes them \$2,700,000,000 and interest—

Mr. McNEVIN: They are assets of the bank.

Mr. SLAGHT: Yes. That is locked up there at interest. And now, you can do this—if this committee approves and you think so, then support it—you can go further than my amendment and you can create amendments whereby the Minister will be instructed to select a date like the 1st of August and say to the chartered banks Canada is prepared to pay her debt to you, bring over your bonds to the Bank of Canada and we will pay you the principal in full with accrued interest and you can go back and lock up in your vaults instead of bonds, the cash that we gave you in part or we will credit you—they will not take a large amount of cash like that—and we will credit you with the \$2,700,000,000 on the books of the Bank of Canada as a debt.

Mr. MACDONALD: Isn't that going to come about anyway in the next number of years, say fifteen years at least, that these debts of Canada which the banks hold; are they not going to be paid off in the next comparatively speaking few years? And may I ask are you going to pay that debt by printing money at the Bank of Canada without interest, just the way you are going to pay the debts which accrue from now on?

Mr. SLAGHT: I would; but coincidental therewith it would be necessary to amend Section 59 by putting them on a 100 per cent reserve; and that would mean that they would lock that principal money up in their vaults, \$2,700,000,000, and could loan against it to commercial firms on commercial loans because they would have 100 per cent Bank of Canada cash against the loans and when they came to the end of loaning that otherwise than to the government, they could not go any further and they could not create new money; because banks do create new money.

Mr. MACDONALD (*Brantford*): The banks could have all this new money that is going to be printed today, also they would have all the savings deposits which are carried in the banks of this country on which they could loan; is that your practical suggestion?

Mr. SLAGHT: Yes.

Mr. KINLEY: What about the bonds sold to the public, held in the hands of the people throughout Canada; would you stop the sale of them to the banks?

Mr. SLAGHT: Not at all.

Hon. Mr. ILSLEY: Oh well then you would just load them up again.

Mr. SLAGHT: All right, one thing at a time; I have digressed from what I was going to tell you. Mr. Macdonald stated that he was curious to know what I would do if I had my way; but I am not putting that forward at the moment.

Mr. MACDONALD (*Brantford*): I am not curious, I just want to see through to the end of it. If I understood you correctly Canada is to have no debt at all.

Mr. SLAGHT: No, you do not understand me correctly at all.

Mr. MACDONALD (*Brantford*): I do not see how I can come to any other conclusion.

Mr. SLAGHT: Canada has to-day a federal debt of approximately \$13 billion.

Mr. MACDONALD (*Brantford*): Yes, and you are going to pay that off.

Mr. JAKES: How?

Mr. SLAGHT: You say so.

Mr. MACDONALD (*Brantford*): You say so; what I am trying to make out is if you are going to do that by printing money and not paying any interest on it at all.

Mr. SLAGHT: All right.

Mr. MACDONALD (*Brantford*): That in the near future you are going to pay off all of Canada's national debt.

Mr. SLAGHT: You are confusing debts owned by private banks who give no real service or goods for it and debts held by the people of Canada in their victory bonds; because the man who has paid \$100 for a victory bond worked for \$100 worth for wages with which to buy it and he took his money in and he exchanged the token of his goods and services for that bond and he gave value for it; and the bonds that these bankers walked up and bought from the Minister, or gave him money for, they gave him nothing for it, and yet they are in competition with the bonds of those buyers who gave goods and services.

Mr. MACDONALD (*Brantford*): I would not say that they gave nothing for it; they themselves are giving service to the government, you see. When the government of Canada issues a cheque, someone has to service the cheque.

Mr. SLAGHT: We will come to that, one thing at a time.

Mr. MACDONALD (*Brantford*): I do not think you should say that the banks give nothing for it.

Mr. SLAGHT: I was speaking of the issue of it by the bank. I will come to your point, I understand it fully. You are saying that we ought to go on letting eleven and a half million taxpayers, or those who pay taxes out of that eleven and a half million, pay tax toll or pay interest on securities and that that must cover the services that the banks render to some 5,000,000 Canadian people in servicing their accounts. You and I do not agree on that. But we will just leave the matter lie for the moment, I will come to it shortly.

Mr. MACDONALD (*Brantford*): I will be glad to hear your explanation.

Mr. SLAGHT: That will be among two or three of the things that I will have to say in support of this amendment.

Mr. MACDONALD (*Brantford*): I will be anxious to hear your argument or your explanations.

Mr. SLAGHT: You shall hear it. Now, my friend Mr. Macdonald raised a question; he said, oh well in the course of time that your way of doing it, that my amendment, will result in the bankers being paid off this \$2,700,000,000. The history of this country, of Great Britain and of the United States is that the national debt of these countries for the last thirty years has increased and increased and increased——

Hon. Mr. HANSON: Oh no, they have been reduced, particularly in the United States and this country.

Mr. SLAGHT: You are an optimist of the most buoyant kind if you think that in the next ten years, or fifteen years, there is any chance for the people of Canada to pay these banks this \$2,700,000,000 by some process that you have in mind under which you can do it, but you do not tell us how you are going to do it. You are probably going to adopt Mr. Jackson's method of a rigid, drastic budget, where you balance the budget every year and then tax the people enough over to pay for balancing it.

Mr. MACDONALD (*Brantford*): I have read thoroughly Mr. Jackson's statements and I do not recall his having said that he would have a balanced budget every year.

MR. SLAGHT: No.

MR. MACDONALD (*Brantford*): I also understood you to say, Mr. Slaght, that you had decided on your remarks that you were not going to touch this \$2,700,000,000 of debt which the banks hold.

MR. SLAGHT: You have heard that several times.

MR. MACDONALD (*Brantford*): Now you are saying that eventually you are going to do it, that you are going to wipe it out. I do not know whether you are, or whether you are not.

MR. SLAGHT: Why not leave your problem to vote on the amendment until the time comes; why clutter up this clear-cut issue which I believe I am presenting? It is clear-cut as an issue. Do not expect it to be agreed upon. But you want to bring in something I am not proposing for the moment unless I am compelled to by the committee—in discussing whether or not we redeem by new money the \$2,700,000,000 or let it lie there—which they made a short time ago.

MR. MACDONALD (*Brantford*): Mr. Chairman, I have not tried to drag in anything. Mr. Slaght is talking about some clear-cut issue, and to me it is far from clear. I do not want to be accused of bringing in anything. Mr. Slaght can look after himself with me quite easily. I want to say to Mr. Slaght that I am not trying to bring in anything to interfere with his argument; I am asking for information and clarity.

MR. SLAGHT: I am glad that is so.

HON. MR. HANSON: May I ask you this: you made the statement that no nation ever attempts to pay off its funded debt to the people. Let me remind you that between the two wars the United Kingdom did that very thing as regards the United States, and Canada did also in the twenties to a limited degree. If I understand your proposals correctly, you want the nation, through the Bank of Canada, to issue debt free money; that is interest free money.

MR. SLAGHT: In as far as this—

HON. MR. HANSON: There is a limitation—I understand that—but looking at it plainly that is the ultimate objective you have in view; that some day it will all be done by the issue of interest free money; that is your objective?

MR. SLAGHT: For the future.

HON. MR. HANSON: For the future. As soon as the banks are taken care of with the government securities which they hold, what is there to prevent me, as a holder of victory bonds, taking my bonds to the bank and getting my money for them, and the banks, in turn, doing certain things; would you prevent them from buying those bonds?

MR. SLAGHT: No.

HON. MR. HANSON: You are going to take them out in the first place. I do not see where this leads except to this, that ultimately you are going to have Bank of Canada notes issued to the public in lieu of all interest-bearing federal securities. Now, have you thought clear through what the ultimate result of that is to be?

MR. SLAGHT: I do not agree with you for this reason—

HON. MR. HANSON: Of course you will not.

MR. SLAGHT: —the great bulk of the people of Canada—it is true many subscribed to victory bonds for patriotic reasons—but the great bulk of the people of Canada have learned thrift through victory bond issues, and you could not pry them loose or persuade them to sell their 3 per cent bonds to the bank for anything; they are determined to hold them and to continue to

save. I do not know how you feel about this yourself, whether you are selling yours to the bank or hanging onto them, but I am not alarmed by anything like that. Let us take care of that when it happens. What difference does it make? I am trying to stop this bleeding of the taxpayer by the pyramiding of debt which he has no chance to pay in his lifetime as far as borrowing from chartered banks is concerned for government needs.

Hon. Mr. HANSON: If you object to this system of going to the banks to make up the deficiency between taxes and sales to the public on the one hand, and expenditures on the other—we have now borrowed from the chartered banks about \$900,000,000 on certificates of deposit at very low rates of interest, three-quarters of one per cent, I think it is, and they also have treasury bills in the hands of the banks—if you object to that procedure too, you would have that done through the Bank of Canada and the issue of those Bank of Canada notes.

Mr. SLAGHT: That is what I have been talking about.

Hon. Mr. HANSON: The whole system is to be predicated on a theory that all the national debt of every character now in the hands of the banks and the public—

Mr. KINLEY: And the provinces.

Hon. Mr. HANSON: I am leaving them out for the time being; they are sovereign in themselves; but ultimately the whole thing would be done by interest free money. What becomes of the value of money in terms of foreign currency?

Mr. SLAGHT: I am not putting that forward at all. When you address the committee you can try to persuade them that that would happen; but let me tell you this, that the 8 billion odd dollars of victory bonds held by the people of Canada, the people of Canada who hold those bonds got them with their sweat and work and wheat and property, and I am not going to disturb them in the holding of those bonds. I do not care what you would do. They will continue to hold them, and they will have to get renewals of them, and they may be asked to take renewals of them when the principal falls due at a sum either lower or more than the present rate of approximately 3 per cent. Do not try to alarm the committee because some holders of victory bonds might find it desirable to sell them in the next few years to the banks; do not alarm the committee as far as that statement is concerned.

Mr. MACDONALD (*Brantford*): Would you allow the banks to hold the bonds that they do buy from the public; would you go that far?

Mr. SLAGHT: Yes.

Hon. Mr. HANSON: Of course, you defeat your own purpose there.

Mr. SLAGHT: Never mind defeating my own purpose.

Mr. JAMES: May I point out that if as Mr. Hanson says you have got to deflate in order to raise the value of money then the people in order to pay their taxes and their debts will have to sell their bonds to the banks and it will be a fresh creation of money. The point is that it would be interest bearing really. If they do it the way Mr. Slaght suggests it would not be interest bearing.

Mr. FRASER (*Northumberland, Ont.*): What would happen if the banks got the \$2,700,000,000? What would they do with the cash?

Mr. SLAGHT: What would they do with the cash? They would keep it in their vaults, I assume, and use it as they might require to pay their obligations with that cash.

Mr. FRASER (*Northumberland, Ont.*): With all due respect, I do not think that is a reasonable answer.

Mr. SLAGHT: They gave nothing for it; they got the bonds for nothing except as a bookkeeping entry, and as Mr. Macdonald points out, let us try to look at this original transaction and then we will consider the consequences of it in a moment. Do you deny that when they issued \$2,700,000,000 of credit they did not do it by an entry in their ledger to Mr. Ilsley and he checked against it; when they put it there originally and locked up in their vault the government securities bearing interest what did they do for that money? They gave no services, they gave no goods; they made a bookkeeping entry, and they come out of the transaction with interest-bearing securities that will go on for a lifetime.

Mr. McNEVIN: For which they had liabilities to the public.

Mr. SLAGHT: Now, Mr. Macdonald suggests that—

Mr. MACDONALD (*Brantford*): I did not suggest anything, I merely asked you a question. What I object to is that if I or any other member of the committee ask a question, the person who is asked the question—especially Mr. Slaght—thinks you are opposing the idea when you are only looking for information. All I want is information. I have made no suggestion about paying back.

Mr. SLAGHT: Let me put it this way. Can you conceive that we can change our policy for the future, and if we have under a system which I think has been wrong, given these private bankers these securities to the value of \$2,700,000,000 which they now hold—can you conceive that we could leave them with them to that extent, and stop doing it in the future if it is a bad habit—is that conceivable?

Mr. McNEVIN: Is it not true that the banks have liabilities to the public of approximately the same amount?

Mr. SLAGHT: Certainly, but that is one reason why they have liabilities to the public. In answer to Mr. Macdonald, if you are still going to drag in this \$2,700,000,000, which I am not asking this committee to touch, you would give them good Bank of Canada cash or security in their vaults to meet their liabilities to the public, but to that extent you would deprive them of the revenue on this \$2,700,000,000.

Mr. McILRAITH: Would they buy bonds from the public with that and get 3 per cent?

Mr. SLAGHT: I do not know what they would do.

Mr. KINLEY: How about savings accounts? If I have a savings account in a bank how about that?

Mr. SLAGHT: I am afraid I cannot understand you. I hear you talking but I cannot understand you.

Mr. KINLEY: How about the savings accounts of the public in the banks?

Mr. SLAGHT: I am coming to that. I will deal with the savings accounts. I have told you already I would permit the banks, which have received in savings deposits from the public what the public have earned by goods or services, worked for and then lodged with the bank for safe keeping and to get this little $1\frac{1}{2}$ per cent interest on it, to lend the aggregate, the equivalent of that money at 4, 5, 6, and 7 per cent in the legitimate commercial banking business.

Mr. KINLEY: A fat chance he would have.

Mr. FRASER (*Northumberland, Ont.*): That would not absorb your deposits?

Mr. SLAGHT: Would it not? Do you mean to say that if you permit the bankers to do that that they have not got enough money to lend for the needs of the borrowing public?

Mr. FRASER (*Northumberland, Ont.*): They have only got about \$900,000,000 out now commercially.

Mr. SLAGHT: They have got some 900 odd million dollars out now in commercial loans. Mr. Gilbert Jackson raised that question. He said, "Why, if you only allow them to loan the equivalent of the capital they put in originally and their reserve plus the equivalent of their savings bank deposits you would create a national disaster". He afterwards withdrew that but he said, "The banks will not have enough money to lend for the commercial needs of the people of Canada." I filed an exhibit here the other day to show what nonsense that is for this reason; when I dealt with Mr. Jackson on the question I treated capital as about \$145,500,000 and reserve at \$136,000,000. That was accurate. I suggested to him there was in savings deposits approximately \$1,800,000,000 that the banks now have. I had taken a figure of nearly a year ago. The true figure as of April 30 last is \$2,254,000,000 as appears in the Bank of Canada statistical report. They have \$2,254,000,000 of savings deposits now on their books and with \$287,000,000 of capital under my viewpoint of what they should be allowed to do it gives them a lending capacity of \$2,500,000,000.

Let me say to my friend that going back eighteen years to 1926 this exhibit shows that all loans in Canada from all chartered banks amounted in millions to 1,161 millions. Their loans abroad amounted to 511 millions, a total of all their loans of \$1,672,000,000. In the year 1929 it went higher than that because in the year 1929 the banks made loans to brokers during the boom period. That put them up to the highest they had ever been. Their loans at home were 1,722 millions and 549 millions abroad or a total of 2,271 millions. I need not give you the breakdown of this at home and abroad but this is their total lending business over eighteen years. In 1938 it was 1,191 millions; 1939, 1,236 millions—that is the first year of the war; 1940, 1,317 millions; 1941, 1,497 millions; 1942, 1,367 millions; 1943, 1,333 millions, and in 1944 on April 30, which is the last date we have, the banks had outstanding both at home and abroad only 962 millions at home and 197 millions abroad so that they had outstanding in all their loans to the public 1,159 millions.

They have got \$2,500,000,000 of a leeway on which to lend, so to suggest that it would cramp the needs of the borrowing public to limit them to lending only the equivalent of their savings and capital just won't hold water.

Mr. FRASER (*Northumberland Ont.*): Mr. Slaght, I did not say it would limit them. I am sorry if you misunderstood my point.

Mr. SLAGHT: Mr. Gilbert Jackson did. That is what I was meeting but what do you say about it?

Mr. FRASER (*Northumberland, Ont.*): I am just saying the reverse. Instead of limiting it it would give them more cash than they could possibly lend to the public commercially.

Mr. SLAGHT: I wish you had said that to Mr. Gilbert Jackson. He took the very opposite view. I did not have this eighteen year schedule prepared to face him with it, but that was the position he took as will appear from his evidence when you get it.

Then, Mr. Chairman, may I make this observation, that in addition to their capital and reserve the banks have their buildings. They have \$40,000,000 outstanding.

Hon. Mr. HANSON: Their buildings come out of their capital reserve.

Mr. SLAGHT: Did you want me to pause, Mr. Chairman?

The CHAIRMAN: No, go ahead; do not pause.

Mr. SLAGHT: Then, the banks have, of course, the hidden reserve. That is the difficulty this committee is in to-day by reason of the attitude that the

committee itself has taken. The bankers came here and admitted they had a fund there that is in cash and securities. Mr. Clarkson tells us it is on top of everything I have been talking about, but they will not tell the committee how much it is and they will not tell parliament how much it is. I did not press ultimately that they should tell us by individual banks nor that they should even tell us year by year, but what I and those who thought with me sought was disclosure of the total every ten years. Now we are right up to that stage where you see, if I may say so, the handicap we are under in dealing with this problem without that figure. They said, "We are not going to tell you." They informed us it would be bad for parliament to know the aggregate amount of that figure in their vaults even once in ten years and not know it again for another ten years. So we have put blinkers over our eyes and we have got to guess at what extra amount that may be.

Mr. MACDONALD (*Brantford*): There is a liability against that inner reserve. Surely you would not allow these banks to lend something they have put there to meet a liability?

Mr. SLAGHT: I am not suggesting they lend it. I am telling you that is in addition to what I am suggesting they should be allowed to lend, that is, their disclosed reserve, their original capital and the equivalent amount of their savings balances which gives them a lending capacity of \$2,500,000,000. For eighteen years they have never been up to that and for half the time and right to-day they are less than one-half of the extent to which I would permit them to carry on commercial bank loans.

If I may just illustrate the runaway character of the government borrowing that has been going on, in 1933 total dominion and provincial securities held by these banks were only \$649,000,000. 11 per cent of that figure we take for provincial, so that our dominion government borrowings in the year 1933 from the chartered banks were \$578,000,000. We have increased this now to \$2,700,000,000 due to the war. The increase is approximately 450 per cent since 1933. Another interesting fact in connection with what I call this monopoly right to create money to lend the government is that if you will look at page 617 in the schedule you will find that notwithstanding that dominion and provincial governments are paying the banks on the 30th of April last on loans to the dominion and provincial governments combined of \$3,029,000,000, of which only \$2,700,000,000 is dominion government, these same governments had on that date on deposit to their credit in the ten chartered banks the enormous sum of \$750,000,000. There was \$750,000,000 to the credit of the government of Canada and the government of the provinces on the books of the chartered banks; and although on that date that deposit is there, they are paying them interest on \$2,700,000,000. Of course, any current account dealer has got to have a leeway.

Hon. Mr. HANSON: He has got to have working capital.

Mr. SLAGHT: Yes, he has got to have some working capital. But that is an interesting observation to make when, if we dealt with the Bank of Canada, there would not be any such anomalous position existing at all.

I asserted that the banks create new money merely by making pen and ink entries in their books—I mean, that is the origin of their creation of it—and that they make their money, as the minister put it, by lending more money than they have in their cash reserves, to the extent of eight, nine and ten times their cash reserves.

Mr. CLEAVER: Do you mind an interruption, Mr. Slaght?

Mr. SLAGHT: No.

Mr. CLEAVER: Do you really believe that any bank lends this money without actually having it?

Mr. SLAGHT: Certainly.

Mr. CLEAVER: Will you show me any bank statement that shows any such surplus on its statement? I have yet to see a bank statement that does not balance.

Mr. SLAGHT: If you will look at the bank statement and read their capital, you will find what I mean. Take one bank that I have in mind, the Bank of Commerce. The capital, I think, is \$30,000,000; the reserve is \$20,000,000 or \$30,000,000. I happen to remember the Bank of Commerce loans to the public of Canada are \$214,000,000 on that capital and reserve; and the Bank of Commerce have of securities, on money they lent to the Dominion of Canada on government bonds bearing interest, \$578,000,000.

Mr. GRAHAM: What is their liability to the public by way of deposits?

Mr. SLAGHT: By way of deposits? I have not that before me.

Mr. GRAHAM: You will find it is there.

Mr. SLAGHT: All right; certainly by way of deposits. Where does that lead to. Let me tell you that the banking business started—

Mr. CLEAVER: If I may, Mr. Slaght, I should like it if we could finish this question.

Mr. SLAGHT: Certainly.

Mr. CLEAVER: Any time a chartered bank makes a loan to the government or buys a government bond, is there not a corresponding liability created somewhere on the part of the bank?

Mr. SLAGHT: There is a liability created at once; because the minister cashing the bond or the security, asks the bank to credit this million dollars to him. He gives a security bearing interest and it carries on for years; but the bank credited him with the principal of it, the one million dollars.

Mr. CLEAVER: No. Having regard to this Dominion of Canada security which the bank receives when the bank makes a loan to the government, the bank either sells that security to someone else or uses its depositors' money and the bank owns the security and uses the depositors' money to pay for it. I have yet to see any bank statement that did not balance, where the liabilities of the bank were not equivalent to the assets of the bank plus any profits that were made. I do not follow you at all where you argue that the banks have created something over two billion dollars worth of assets out of thin air, because I have not seen any bank statement showing any such thing.

Hon. Mr. HANSON: The fallacy of Mr. Slaght's argument is just this. He says that the banks get these securities by pen and ink entries; in other words, he suggests they do not give value for these securities. I suggest that they give to the government their depositors' money.

Mr. CLEAVER: Yes, certainly.

The CHAIRMAN: In effect.

Hon. Mr. HANSON: In effect. I do not see any other way at all.

Mr. SLAGHT: Perhaps, if you do not like accepting my statement, you will allow me to give you some statements that I fancy you will not be able to quarrel with. Governor Eccles, president of the Federal Reserve Bank of the United States says this:—

The banks can create and destroy money.

And so far as the system that we are talking about is concerned, it is exactly the same in the United States as it is here.

Mr. KINLEY: Oh, no.

Mr. SLAGHT: Governor Eccles says:—

The banks can create and destroy money. Bank credit is money. It is the money we do most of our business with, not with that currency which we usually think of as money.

Then Mr. R. G. Hawtrey, a prominent economist and one of the chief officials of the treasury put it this way:—

When a bank lends it creates money out of nothing.

Then Mr. J. M. Keynes, the well-known economist says:—

There can be no doubt that all deposits are created by the banks. Then the *Encyclopædia Britannica*, if you like to read it, says this. I will come down to our own time and Mr. Graham Towers, if you have any further doubt about banks creating money. The *Encyclopædia Britannica* says:—

Banks create credit. It is a mistake to suppose that bank credit is created to any important extent by the payment of money into the banks. A loan made by a bank is a clear addition to the amount of money in the community.

They create new money when they make a loan.

Mr. CLEAVER: Yes, but when they make a loan, they lend the depositors' money.

Mr. SLAGHT: Oh, they do not do any such thing.

Hon. Mr. HANSON: That is where he says you are wrong.

Mr. CLEAVER: Why does a bank ever fail if they can create new money? Why did not the Home Bank create new money?

Mr. SLAGHT: Because the government put a stop on it. When they step in and find that a bank is in an insolvent position, they close their doors and put in a trustee.

Mr. CLEAVER: Why should any bank become insolvent if they can create new money out of thin air?

Mr. SLAGHT: Because, as you well know, they cannot create new money unless they hold certain relative quantities of Bank of Canada cash or credit locked in their vaults. Only then can they create new money. Otherwise the directors go to jail. Sometimes the directors do go to jail or get very close to it.

Mr. CLEAVER: Yes. But if banks by this simple process that you suggest can acquire all these additional assets without cost to them, why should any bank director be stupid enough to allow his bank to become insolvent?

Mr. SLAGHT: You will have to take that up with them.

Hon. Mr. LISLEY: There was no provision for a cash reserve ratio at the time the Home Bank failed.

Mr. McGEER: Yes, but the bank at that time adopted the practice of a 10 per cent reserve. There was that practice.

Mr. SLAGHT: The legal provision now is so trifling, \$5 cash reserve to lend \$100 in a bookkeeping entry. The bankers are careful now. They should get credit for that. They do not use that monopolistic privilege, as I call it, up to the full extent of \$100 for \$5. They only use it up to the extent of \$50 for \$5. They only enjoy the privilege of lending something they have not up to ten times what they have.

Mr. KINLEY: They have the double liability, the stabilization fund and they have all kinds of government control.

Mr. McGEER: There is no double liability now. That has gone.

Mr. KINLEY: It is going down.

Mr. McGEER: It has gone.

Mr. CLEAVER: Do you suggest that a chartered bank, without any depositors' money, and with simply this Bank of Canada cash which it could purchase with its own shareholders' money, could make these loans?

Mr. SLAGHT: Absolutely and definitely, as it stands under the law to-day.

Mr. CLEAVER: I think that is absurd.

Mr. SLAGHT: Right, you tell me why not?

Mr. CLEAVER: I read the Act and I think Section 59 is a restrictive clause.

Mr. SLAGHT: Certainly, and restrictive of what? Restrictive of not letting you have one dollar and then loan \$100; you have got to have \$5 of Bank of Canada money in and then you can lend \$100.

Mr. CLEAVER: As I read that section, you must have depositors' money and then you must maintain—

The CHAIRMAN: Order, please.

Mr. CLEAVER: —as a reserve against that depositor's money, 5 per cent of Dominion of Canada cash.

Mr. SLAGHT: I find no such thing in the Bank Act, and I find no such thing in the practice of banking; there is no such thing.

Mr. CLEAVER: I think, Mr. Chairman, that we should have a representative from the banks here on this question of investments and reserves. I understand they have an investment officer and that his first duty every day is to look at the bank's statement, to look at the amount of the deposits, the loans outstanding, and all that sort of thing, and in the light of that information to make or advise as to the making of investments.

Mr. SLAGHT: What has that got to do with what we are talking about? The law does not require them to have anything but a five dollar bill in the till and they can lend \$100; and when they have that amount all they do is to make an entry in a ledger and give you a little book and you go away from the bank with a promise to pay you \$100 in connection with which all they have got to put up is \$5.

Mr. CLEAVER: Mr. Slaght, as I understand things, that should be done; if they said in effect that the banks are permitted to loan \$100 of the depositor's money they must set aside money against that deposit 5 per cent of the depositor's money as a reserve, that means that they can only loan \$95.

Mr. SLAGHT: You are increasing what in there; he said, your cheque. The Act does not say at all.

Mr. FRASER (*Northumberland*): The object of this great monopolistic system was the privilege of issuing money and making a profit; where does the profit go? It is not shown on their statement.

Mr. SLAGHT: Part of it is in the hidden reserves and part in the disclosed reserves; the reserves they have apart from their capital.

Mr. FRASER (*Northumberland*): Yes, and that has been piling up for seventy years.

Mr. SLAGHT: And they have paid as high as 10 and 12 and 14 per cent over a period of ten years at a time; one bank paid as high as 16 per cent for ten years—that is their capital back every six and a half years.

Mr. KINLEY: How does that compare with the commercial field generally?

Mr. SLAGHT: I cannot tell you.

Mr. KINLEY: I can.

Mr. SLAGHT: I think by and large when you know the struggle that commercial and industrial investments have had in Canada, I think when you reckon that it has gone on for fifty years, it is a pretty good business to be in.

The CHAIRMAN: Order, please. Mr. Cleaver has the floor.

Mr. CLEAVER: You said a moment ago that I was attempting to read in Section 59 words which are not there.

Mr. SLAGHT: I would think so.

Mr. CLEAVER: I made the statement on the understanding that Section 59 was just this, that the banks were permitted to lend money out, 100 per cent of the money which they received on deposit, but were required by Section 59 to set aside as a reserve against deposits 5 per cent of the total deposits. Now, that is exactly what the section says. Section 59 reads this way:—

The Banks are to maintain a reserve which shall not be less than 5 per centum of such deposit liabilities as are payable in Canadian dollars.

Mr. SLAGHT: Yes.

Mr. CLEAVER: I suggest that I was not quarrelling with the section, nor was I reading into the section something that was not there, when I said that the banks are prohibited from lending 100 per cent of the depositors' money, they must set aside 5 per cent as a reserve against deposits.

Mr. JAKES: Well then, how do they increase their deposit liabilities?

Mr. CLEAVER: Let us take this as a practical case: Mr. Noseworthy goes into the bank and deposits his indemnity cheque for \$540; he goes into the bank and he receives \$540; and let us assume that you did the same with yours; the bank receives \$540, and against that liability—you would have the right the same day to draw it out in whole or in part—but against that amount they set up a reserve of 5 per cent.

Mr. SLAGHT: May I proceed, Mr. Chairman? I had hopes for Mr. Cleaver, but I am going to give him up:

Mr. KINLEY: May I ask you one question?

Mr. SLAGHT: Certainly.

Mr. KINLEY: Supposing I go to the bank and they lend me \$50,000; you say they gave me that for nothing?

The CHAIRMAN: A little louder, please, Mr. Kinley.

Mr. KINLEY: You say they gave me nothing, they just gave me something that they created?

Mr. SLAGHT: I did not say they did not give you anything; they gave you the right to cash in on their promise that the next day and the day after they will pay you that \$50,000 or any part of it. That is something. I did not say they do not give you anything.

Mr. KINLEY: Now I have that \$50,000; you say they only have a 5 per cent reserve. There is among the banks what is known as a clearing house. Suppose I take this cheque to my bank and cash it and my bank in turn puts it through the clearing house; they would get Bank of Canada bills in the clearing house for the money which I received by way of loan from the first bank. They would have to face that loan and pay it.

Mr. SLAGHT: Certainly.

Mr. KINLEY: There is no inflation on the 5 per cent there. That is 100 per cent active money. The currency they issue is based only on the competence in my standing and they took a chance on that.

Mr. SLAGHT: Putting it that way you have come pretty close to the mark. They had funds to begin with. They started that capital to work. Let us realize that the banking business is a group of men getting together. Let us say that our ten business men who between them say we are tired of lending our money to somebody else, we have \$145,000,000, let us put it into a bank and get a charter and hire expert people to lend it for us; and the experts go out and lend it for them. They start out with capital to go into the business of usury, which is a genuine legitimate business, and lend their money; and here we have built them into a position where they make an entry into a book, and you go ahead and give them a bond or security,

whatever it is, or it may be your name; and they say, we will take that from you and you have got to take from us the chance that when you want your money we will pay it to you. But they do not stop with that; they go and lend me \$50,000 and they go and lend someone else \$50,000, and so on, and we all have to take a chance on the bank making good.

Mr. KINLEY: That is the basis of the banking system.

Mr. SLAGHT: It is the basis of the banking system, Mr. Ilsley says; that is the way they make their money; they lend out ten times more money than they have in cash reserves; why should they?

Mr. KINLEY: They lend credit, which is perfectly all right. I can do it, you can do it.

Mr. SLAGHT: You tell us that—you try to do it.

Mr. JAUQUES: Why can't the province of Alberta do it?

Hon. Mr. HANSON: They could, if the public has faith in the bank.

Mr. SLAGHT: Now, if I may proceed, Mr. Chairman—

Mr. KINLEY: You can't get something for nothing.

Mr. SLAGHT: I am coming to that statement, that you cannot get something for nothing.

The CHAIRMAN: Well, come to it

Mr. SLAGHT: That is the stock bankers' defence which we have been hearing.

Mr. KINLEY: That is a homely allusion.

Hon. Mr. HANSON: That has been my experience at any rate.

Mr. SLAGHT: If my friends do not believe that the banks do not create money I am going to give them something on it other than my own—

Mr. GRAHAM: Are you trying to prove to this committee that you can get something for nothing?

Mr. SLAGHT: Don't be silly; no, I certainly am not. Let me tell you when you use that expression about borrowing from the Bank of Canada that you try to fool the people into thinking that that is a new way someone is getting something for nothing. This country in the time of our forefathers gave away something of very great value that belonged to the people, and they gave it to those to whom banking charters were issued; and the privilege they gave away was the right to create money, 5 and 10 times more than they had reserves behind. And when they gave away that very valuable privilege to the chartered banks they gave away something for nothing. That is the way we should use that expression. Wait just a minute, if you will; then I will be glad to have you go on. What I am saying is not to go and get something for nothing, take back something of value you gave away which you had no business to give away and get it back into the hands of the people where it belongs; and that is getting something back that you gave away for nothing.

Mr. GRAHAM: Am I to take it, Mr. Slaght, that you suggest we do away with the banks and let anybody who cares to go into the banking business?

Mr. SLAGHT: Do you hope to advance your cause by making a foolish remark of that kind, by talking nonsense?

The CHAIRMAN: Order; may I suggest that we have less heat and more light.

Mr. MACDONALD (*Brantford*): May I suggest the statement with respect to other members being silly or foolish is unparliamentary?

The CHAIRMAN: Yes, also such terms as nonsense.

Mr. MACDONALD (*Brantford*): A term such as nonsense should not be used in this committee.

The CHAIRMAN: I agree thoroughly; I regret it and apologize for the members who made use of it.

Mr. JAUQUES: I hope we remember that when we hear answers about social credit.

The CHAIRMAN: Let us have less heat anyway.

Mr. KINLEY: You think that is what he said?

Mr. JAUQUES: Let us hear no more about funny money and things of that kind.

Mr. SLAGHT: Now then, Mr. Chairman, what did Mr. Graham Towers when examined say? May I quote:—

Q. A banker can purchase a dominion government bond by accepting from the government, we will say a bond for \$1,000 and giving to the government a deposit in the bank for \$1,000?

Mr. Towers: Yes.

Q. . . . what the government receives is a credit entry in the banker's book showing the banker as a debtor to the government to the extent of \$1,000?

Mr. Towers: Yes.

Q. And in law all the bank has to hold in the way of cash to issue that deposit liability is 5 per cent?

Mr. Towers: Yes.

Q. Ninety-five per cent of all our volume of business is being done with what we call exchange of bank deposits—that is, simply book-keeping entries in banks against which people write cheques.

Mr. Towers: I think that is a fair statement.

Dr. Clark: Bank deposits constitute by far the largest portion of our money.

It is the bank deposit (credit at the bank) itself which constitutes "money".

Mr. Towers: It is not correct to say that a bank deposit is "just as good as money", or that it is "a substitute for money". A bank deposit or "credit at the bank" actually is money—it is the major kind of money—it is the kind of money with which 95 per cent of business is done.

Q. But there is no question about it that banks create that medium of exchange?

Mr. Towers: That is right. That is what they are for.

Q. And they issue that form of medium of exchange when they purchase securities or make loans?

Mr. Towers: That is the banking business, just in the same way that a steel plant makes steel.

Each and every time a bank makes a loan (or purchases securities) new bank credit is created—new deposits—brand new money.

Broadly speaking, all new money comes out of a bank in the form of loans.

Q. When \$1,000,000 worth of bonds is presented (by the government) to the bank, a million dollars of new money or the equivalent is created?

Mr. Towers: Yes.

Q. It is a fact that a million dollars of new money is created?

Mr. Towers: That is right.

Now, if you do not like to take my word for it, perhaps you will take the word of the Governor of the Bank of Canada.

Mr. CLEAVER: I take that; but I suggest to you in all deference that the million dollars of deposits is a liability on the part of the banks, and they must meet that liability as and when the federal government presents this cheque on this deposit account.

Mr. SLAGHT: Of course, they must.

Mr. CLEAVER: And the only way in which they can meet that liability is from their assets in the form of deposits, which they have from individuals across this country.

Mr. JAKES: Through using bookkeeping entries.

Mr. SLAGHT: Oh, no, the total cash and credit to the Bank of Canada that is outstanding to-day—and they have increased it \$900,000,000 in the last few years—is \$1,301,000,000. That is the total of Bank of Canada money that is outstanding today, and look at the amount—

Mr. CLEAVER: And the rest of the business is transacted on the confidence of the depositors—on the confidence of the general public in the banks.

Mr. JAKES: That is a confidence trick there.

Mr. SLAGHT: If I might go on, I should like to deal with one or two matters that are put forward by the opponents of the plan of creating a reserve of 100 per cent by the bank. They use the expression "You cannot get something for nothing." I have dealt with that. That is a clever way to trot out a phrase of that kind—a sort of wise crack—but it has no application to this case at all; because we gave up something of great value for nothing and my proposal is to retake for the people something of great value that they gave away for nothing.

Mr. CLEAVER: Does your amendment refer to all current accounts or current accounts and savings?

Hon. Mr. HANSON: Only demand deposits.

Mr. SLAGHT: Yes.

Mr. CLEAVER: That would be current accounts.

Mr. SLAGHT: Yes. I am not touching the banks' right to lend. When I say that I mean that these amendments do not touch the bank's right to lend what they went into this business for—to lend their own capital—that is all they started with, their own capital to lend to people until they got away from our forefathers these precious privileges they are using now. It does not touch that right, and it does not touch the right to lend up to the extent of their savings deposits which, I think I was told are two and one-quarter billion dollars now.

Now, the second excuse that is put forward—not by the bankers—and the strange thing in this inquiry is that there is not a banker who has come forward with any of these bugaboos—

Mr. McNEVIN: For example, I have a current account. The bank services that current account and give a splendid service; do you think they should not lend that?

Mr. SLAGHT: Should not lend it? No, because the way they created it was by an entry they made in a book to you and you take your chance on whether they can ever pay it.

Mr. McNEVIN: I sold \$1,000 worth of capital and I put the proceeds of that in a current account, they service it and take care of it for me. If I am not using it, do you think they should not lend it?

Mr. SLAGHT: They should not lend on their deposit current accounts.

Mr. KINLEY: What is the good of them to them if they cannot lend them? What do they want them for—to look at?

Mr. McNEVIN: They keep track of my money.

Mr. SLAGHT: I shall deal with the service in part. Now, the second excuse that is put forward is that if we should create our new money without interest through the Bank of Canada that that would cause inflation. Now, my friend the minister has settled that for me. You do not need to take my word for this at all. He has made that very clear, that if we do amend the Act and compel them to keep 100 per cent cash reserve against deposit accounts, that if the

government go and borrow from the Bank of Canada without interest instead of from the chartered banks and pay interest, that will have no more inflationary effect one against the other.

Hon. Mr. HANSON: I do not think he said that.

Mr. SLAGHT: You do not? Let me read it to you.

Hon. Mr. HANSON: That is not my understanding. I thought he said the latter was more inflationary than the former, and both were a matter of degree.

Mr. McGEER: Not if we had 100 per cent reserve.

Hon. Mr. ILSLEY: I said if there was 100 per cent reserve required against all the deposits that I could not see any difference in inflationary effect.

Hon. Mr. HANSON: All right.

Mr. SLAGHT: Nor anybody else. There is no difference, sir. Now, the minister was kind enough to settle that for me, and he settled it on the floor of parliament in the House of Commons, and he spoke of interest—I am quoting these things—and he said, "I admit that"; and he very frankly, to forward our discussion, says so to-day.

Hon. Mr. HANSON: I was wrong. I did not take into account 100 per cent.

Mr. McGEER: It is more inflationary; it can be used as a reserve.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: Then Professor Jackson trotted out this inflation business when I asked him—

Mr. GRAHAM: I certainly object to Mr. Slaght suggesting that Professor Jackson, who was invited to come before us, trotted out anything. I have a great deal of confidence in Professor Jackson—much more than I have in the theories of Mr. Slaght.

Mr. SLAGHT: That is very refreshing, but your statement is wrong; he was not invited to come before us; he was sent before us by his clients.

Mr. GRAHAM: We should extend the same courtesy to the witnesses as we extend to any member of this committee.

Mr. SLAGHT: You are very sensitive. Trotting something out is not necessarily disgraceful. People may trot out an argument every day and there is nothing disgraceful about it.

Mr. MACDONALD (*Brantford*): I believe I moved in this committee that Professor Jackson should be brought here. There was an invitation which was carried unanimously.

The CHAIRMAN: Since this matter has been brought up, may I read from our transactions a reference that Mr. Slaght made a little while ago as to something Mr. Jackson had said, and as I read it Mr. Jackson says the reverse of what Mr. Slaght intended to convey.

A. I shall not quote from memory the amount of their loans, but I think it is probably something in the neighbourhood of \$900 million or \$1 billion.

Q. Yes.—A. Now, they can lend \$2 billion, twice what they have now lent, and when they get beyond the level of twice their present loans you want to apply a very drastic reserve provision against them?

Mr. SLAGHT: Whose language is that?

The CHAIRMAN: Mr. Jackson's.

Mr. SLAGHT: Will you read that again?

The CHAIRMAN:

A. Now, they can lend \$2 billion, twice what they have now lent, and when they get beyond the level of twice their present loans you want to apply a very drastic reserve provision against them?

Q. Right.—A. I think it is so improbable that the banks are going to lend \$2 billion in the near future that if you make that regulation it might have no practical effect whatever, to my mind.

Q. That is encouraging.

Mr. SLAGHT: Then, at another place, or earlier than that, he did suggest that if we restricted them to lending a mere \$2 billion of their savings, and so on, we would create a national disaster. I invited him to elucidate that and tell us what he meant by a national disaster. He went on with some talk and then we found that there was no national disaster at all. He was good enough to say he thought he had used too strong a word, but that was his first reaction to it. My proposal was monstrous to limit them to merely lending \$2 billion and he did discuss somewhere the fact that we must not do anything to cramp the borrowing needs of the Canadian public. You remember that.

The CHAIRMAN: Certainly.

Mr. SLAGHT: Then he finally was good enough to say—

The CHAIRMAN: You were discussing the other point a little while ago.

Mr. SLAGHT: I was. I am glad to have you refresh my memory, but after it was pointed out what the figures were he receded from the position it would be a national disaster and would be cramping the borrowing needs of the Canadian public.

Mr. KINLEY: It is 1 o'clock.

The CHAIRMAN: Is it your pleasure to adjourn until 4 o'clock?

Some Hon. MEMBERS: Yes.

The committee adjourned at 1.05 o'clock p.m. to meet again at 4 o'clock p.m.

AFTERNOON SESSION

The Committee resumed at 4 o'clock p.m.

The CHAIRMAN: Mr. Slaght, you have the floor.

Mr. SLAGHT: Mr. Chairman, I make this suggestion—and the committee can disregard it if they wish—that I can finish pretty rapidly, which I desire to do, and I know the committee want me to, if I am not so frequently interrupted as occurred this morning. I make the suggestion that when I conclude I shall be happy to place myself at the disposal of each or any member of the committee or of the bankers' representatives to answer any questions they think should be put to me arising out of what I say.

Hon. Mr. HANSON: That is fair.

Mr. SLAGHT: Then, Mr. Chairman, I was interrupted this morning when I was about to remind the committee of what Mr. Graham Towers told me at page 161 in this committee on the 19th of May, 1944. I think it puts it so neatly that I want to put it before you.

Q. You told us yesterday that the banks create money. When the finance minister takes a bond for \$1,000,000 to a chartered bank and they receive the bond and credit him with a million dollars, you told us that in doing so they were creating money; is that correct?—A. That is true.

The CHAIRMAN: What page is that?

Mr. SLAGHT: Page 161.

The moment it is credited, however, it becomes a loan from the depositors of the bank.

Q. I appreciate that—the reason being that instead of turning a crank and making billions of credit, they make it by a bookkeeping entry?—A. Yes. Which entry, of course, can be translated by the depositor into a demand for legal tender at his volition.

That is Mr. Towers. Then, Mr. Chairman, I come at once to the third excuse put forward on behalf of the bankers—not by them because I have not heard any banker's voice raised—that they could not afford—this is paraphrasing in effect—to carry on the banking business at all if we took away from them for the people the privilege that under the constitution was vested in the people, that is, the right to create money and the medium of exchange. I do not think I need spend long on this excuse.

The Minister of Finance in parliament recently delivered a very lengthy statement in which he appeared to be solicitous about the revenue of the banks, the money they were making. Unless we examine that statement he placed on Hansard we might almost be carried away with that solicitude. Let me remind you of some factors that stand out in this situation and that are in the record before this committee. First, the profits of the chartered banks for the past twenty years and the dividends they paid their shareholders have been substantial, fat profits and fat dividends having regard to their capital stock investment. The figures from the Canada year book for ten years up to 1941 show an average of about 10 per cent dividends paid annually, to say nothing of the reserve. That period from 1931 to 1941 covers the worst depression ever known in Canada so far as I recall, and the banks sailed merrily on so far as paying dividends with regularity and at very substantial amounts.

Then they have built up their reserve to just about equal their original capital, in other words, they have doubled their money. That is, as we have heard so often, quite apart from the sum that is lying in there as a hidden reserve. I do not want to say any more about that. In the third place, in addition they have their buildings scattered over Canada all paid for, and fourthly in addition to this situation they have had for many years and still have some \$40,000,000 of their own bank bills which the government allowed them to print and lend to the public, the only cost to the bank being the paper and ink with which to print them. Some fifteen or twenty years ago they were paying dividends as high as 12, 14 and 16 per cent on their capital.

Some expert witness—I have forgotten who—speaking for the bankers tried seriously to have this committee believe that that privilege was not a privilege but was a liability. I think he became discouraged. There is no person but admits that if some individual—and it has never happened—walked in with a \$10 Bank of Commerce bill to the Bank of Commerce and asked for a \$10 Bank of Canada bill he would be entitled to get it. It would be handed to him very quickly, and as I pointed out to that witness there are some \$800,000,000 in Bank of Canada bills afloat in this country and only \$40,000,000 of bills of the private banks. So that for any person to suggest that is a liability and not a privilege that they enjoy, and which is gradually disappearing, does seem to me to be stretching it.

Hon. Mr. HANSON: It is both a liability and a privilege.

Mr. CLEAVER: The privilege creates the liability.

Mr. SLAGHT: Look at it that way if you will, but try to persuade the man on the street that it is not a privilege.

The CHAIRMAN: May I suggest that we do not interrupt. We have heard all of this before; it has all been answered. Now we just have to sit and listen.

Hon. Mr. HANSON: Suffer in silence.

Mr. SLAGHT: I do not know whether that is intended as a slur.

The CHAIRMAN: No, it is intended as a statement of plain ordinary fact that is borne out in the record.

Mr. SLAGHT: I dispute your statement as to plain ordinary fact. This has not all been heard before and has not all been answered.

The CHAIRMAN: Mr. Slaght, the record will bear the truth. We can look it over; those that believe you are right can read it and those that think I am right can read it.

Mr. SLAGHT: Then, I think we will get along faster if you do not put in that type of remark.

The CHAIRMAN: I was just simply appealing that you should not have interruptions, but if you go on repeating these things then you must expect to be interrupted.

Mr. SLAGHT: I will take care of any interruptions.

The CHAIRMAN: We want to get on with the bill.

Mr. SLAGHT: Sixth, over a considerable period of time on top of these privileges—and I am answering this gentleman's suggestion that you are going to ruin the bankers if you do what you want to do—they have been paying income taxes for a good part of their staff. We do not know how long; we do not know how much. They have a substantial and satisfactory pension fund for their employees into which, according to the figures I have taken off, they have set aside out of profits \$22,500,000 in the last fifteen years. No one complains of that. I am delighted to see that the bankers have a proper pension fund. I wish we had such a fund for our civil servants, but let nobody say that is not a very very nice provision by way of a pension fund for their hard-working employees.

Then, I want to remind the committee that out of 11,500,000 people there are only 51,000 shareholders in the private banks, which would be one-quarter of one per cent of the people of Canada. Some of these shareholders of course, are corporations which in turn hold the shares for the benefit of their own shareholders. So that one-quarter of one per cent is not a fair figure to leave, but let me say that a very small proportion of the people of Canada are bank shareholders. The average member of parliament is perhaps a cross-section of the community. I would be interested to know how many of the 245 members of the House of Commons, for instance, have held or hold a bank share.

Mr. MACDONALD (*Brantford*): Whom will we ask first?

Mr. SLAGHT: I do not see anybody standing up. I am putting this to the committee that the great bulk of the people of Canada are taxpayers who are paying toll gate interest to the banks for lending to the government, as the Minister of Finance puts it, nine or ten times more money than they have in cash reserves. Some worthy people have tried to frighten us by saying, "If you take away this privilege from the bankers—the privilege of lending to the government by making bookkeeping entries—the bankers might not pay the savings depositors $1\frac{1}{2}$ per cent," which really, Mr. Towers tells us, is slightly more than 1 per cent the way they figure it out; it is nominally $1\frac{1}{2}$ per cent but slightly more than 1 per cent in reality. Some will put forward the fact that the bankers are doing some great benefit to the people of Canada by accepting savings deposits at $1\frac{1}{2}$ per cent. I want to explode that bubble if I may. Let me tell you what Mr. Ilsley said the other day in *Hansard* at page 2616 in his very able presentation of his budget. He said:—

There can be no doubt about the competition for deposit accounts; even though the banks pay the same rate of interest on deposits, there are other ways in which the keen competition manifests itself, including the character and variety of the services offered.

If the bankers tried to reduce the interest on savings accounts, there is a very ready place for savings account customers to go; they could use the facilities of

the post office savings banks of the country, lend their money to the government direct at 2 per cent, and the 2 per cent paid is a better basis for the customer than the $1\frac{1}{2}$ per cent that you can get from the chartered banks. I suggest to this committee it need have no fears about it; the bankers will still be competing for their savings accounts. They will still be developing the competition that there is amongst the banks, as they have been doing in the past few months, and they will still be holding your money for $1\frac{1}{2}$ per cent to lend it at 4, 5, 6 and 7 per cent, more than ever before, if you take away from them this easy way of getting in millions every year by simply lending money on securities of the dominion government as to which there is not the slightest risk in the world.

You will remember that Mr. Towers told this committee this year that the banks had lent the money of their savings depositors. It was pointed out that ten years ago he made an answer which was construed to be the opposite of that. I am not concerned as to which answer is correct, or it may be that the two could be refined so there was no real difference. But we are not concerned with that, because they undoubtedly do lend the equivalent—and mark my word here, please; they do lend the equivalent—of a large part of the amount of the savings deposits that they hold. Under the amendments I propose I told you that they would still lend to the extent of the \$145,500,000 capital, the \$136,000,000 reserve, and the equivalent of the amount they hold in savings which are \$2,254,000,000 as of April 30, 1944. It is a pure empty threat to threaten the people of Canada that, if they retake for the people what they are entitled to have, as I see it, the banks will be obliged to reduce the rate on savings deposits or will not be able to take savings deposits. They might have to reduce their dividends slightly, although I do not believe they will, and I will tell you why. They may have to stop piling up reserves and increasing the inner reserves at the rate they have been doing; we know there has been an increase, but we do not know to what extent. They may have to drag out into the open some of their hidden reserves. But in so far as other results are concerned, and so far as any detriment to the people of Canada is concerned, there need be no fear of that at all, I suggest. The amendments I propose do not interfere in any way with the remunerative business that the banks do in carrying on legitimate commercial banking by lending to the industries and the business men of Canada which we are told last year, with loans abroad as well as loans at home, produced them about \$55,000,000 in revenue. You will remember Mr. Towers gave us that figure. Nor will such amendments interfere in any way with the excellent business they do in exchange, commissions, service charges and other current operating earnings which brought them \$35,000,000 last year, on an original investment of \$145,500,000. I believe the amendments I propose will have the effect in an honest way and not in a coercive way—and I put this to you—of forcing the banks to bestir themselves to lend their money to the general public instead of sitting back and locking up government securities in their vaults and folding their hands with the knowledge they cannot lose; so that it ought to be a healthy thing for the bankers and it ought to be a healthy thing for the public to amend this Act as we propose.

I think I have a figure here that I do want to give you on that. Yes, I think I did give it to you. It was that in 1933 government borrowings were only \$578,000,000 and now they are \$2,700,000,000.

Now just a word about Mr. Gilbert Jackson. He was challenged to give us any other reason than he did give us as to why the proposal that we are now discussing would create a disaster.

Hon. Mr. HANSON: Mr. Slaght, would you direct your attention to the suggestion that if your proposal carried through, it would raise the cost of banking accommodation to the business community? I think that was his chief answer.

Mr. SLAGHT: Yes. I suggest to you it need not at all. If this is carried through, the bankers will not need to raise the cost to the business community. They will have to cut down the profits to their shareholders to some extent.

Hon. Mr. HANSON: You say they would absorb the cost themselves?

Mr. SLAGHT: I think they would absorb the cost themselves. There may be an argument about that. But what rather concerns me is this. But first I must come to the service charges and then I will deal with what you say. On the question of service charges, which was put to me by some honourable member, that has been mentioned more than once, but never by a banker that I have heard as a reason that they object to this change, and they have been making service charges for years. Some members of the committee did not know that. Last year the service charges made by the banks amounted to \$3,200,000. Who paid the highest service charge prices in proportion to their capacity to pay? The poor people! The poor people of the country, with little accounts of \$50 and \$100, paid out of all proportion for service charges in comparison with the service charges, if any, paid—and seldom were any paid—by the very large corporations which issued, through their bankers, probably \$2,000, \$3,000, \$4,000 and \$5,000 cheques and similar deposits every month. My suggestion about that is this. Why should not service charges be paid for at reasonable rates by the people who receive the service? Under the present system they are being paid for indirectly by the taxpayers of Canada as a whole and not specifically by the people who receive the benefits of this great banking service. Six and a half million people in Canada have no bank accounts and never had one, nor their relatives, and they are all paying taxes.

Mr. McNEVIN: There is room for every creditor there anyway.

Mr. SLAGHT: All right, anyway you say. Why should there be any question about it? Why don't you put that philosophy of economics which has been sound for hundreds of years into effect, the people who will get the benefit of anything this world ought to be able to pay for it. That is my elementary proposition on this service charge matter; but I would like to hear any member successfully refute it.

An hon. MEMBER: Do you include children in that?

Mr. SLAGHT: You have to include the children among the 5,000,000 people who have accounts. There are many people probably in this room who have opened accounts for their children. There is no need of any dispute about that. We have eleven and a half million of people and only five million of them have bank accounts and that leaves six and a half million without them. Now you can take all the children out of that six and a half million if you like and you still have a very large number of Canadian taxpayers, and that is a lot of people who will continue to pay the service charges on account for corporations—the T. Eaton Company, the John Inglis Company and all the big firms of this country.

Mr. McILRAITH: I don't see the point of the statistics you are using.

Mr. SLAGHT: Very well; what do you intend to do about the children; you can't drown them, you have got to have them; they are in the six and a half million. I do not understand the type of approach you make.

Mr. McILRAITH: It is your use of statistics in that way without explanation. I do not think that is smart.

Mr. SLAGHT: I wasn't attempting to be smart. Now then, Mr. Chairman, as I say, that is the method of doing that, making indirectly every taxpayer in Canada pay the taxes on this borrowed money in order to let some people have certain service charges free, I mean what I say; it is a constant tax hitting the poor man as well as the well-to-do man and the well-to-do man as well as the rich man; and the taxes are hitting them twenty-four hours of the

day. Last year in sales tax alone in this country people paid the treasury of Canada \$304,000,000. In England there is no sales tax. \$304,000,000; and it is the working man with his wife and two or three children in this country of ours where the climate changes at least three times a year and you have got to have new boots, rubbers, overshoes and clothing and stockings; they are paying sales tax on that all the time, and their money goes into that sales tax that is paying the big stores service charges on this question of tax-free money. And now, there is no disputing that fact, gentlemen; if you like to, perpetuate it. Then, how about the little fellow in the lower brackets of the income tax, think what is in store for him; and the difference in the tax of cigarettes that the Canadian taxpayer pays, and the 25 per cent sales tax on movie tickets which provide access to the poor man's amusement place where 20,000 people in Canada last year with their families went every Saturday afternoon—

An hon. MEMBER: You mean 20,000,000?

Mr. SLAGHT: Yes, 20,000,000.

Mr. KINLEY: That is a lot of people.

Mr. SLAGHT: I have not seen the statement for some time and probably made a mistake in reading without checking first. I think I made that clear that the people who get the service ought to pay for it. If we amended this bill as I desire then that would be one of the results. Now just one word about the business carried on by Canadian banks in foreign countries. You will note that Section 59 deals with that. As the problem was referred to briefly—what is that?

Hon. Mr. HANSON: I am sorry, I did not mean to interrupt.

Mr. SLAGHT: That is all right. The problem of foreign business of Canadian banks was referred to briefly and discussed briefly the other day in committee and in Section 59 as it stands—and I will direct the Minister's attention to this if I may—under Section 59 as it stands parliament has not fixed any minimum reserve which the banks must carry in cash reserves in connection with their loans or deposits in foreign countries, but they have left that matter to the discretion of the minister. If the Minister has it and could tell us before this debate is ended, I would be curious for one to know what rate of cash reserves the minister has been in the habit of fixing or requiring our Canadian banks to carry in Cuba for instance, and Nassau and those countries where our Canadian banks are doing business. And now, I would like to suggest this—I have not included this problem with the major problem in my two amendments because it might create confusion and I want to keep the two things as distinct as they can be kept—but I do suggest to the committee before they leave Section 59 that the minister may approve of my suggestion, that they might still consider this question of lending in countries other than Canada, whether they be Commonwealth countries or foreign countries in the truest sense of the word. With respect to Nassau, speaking from my own knowledge, for instance, about every twenty years they have a hurricane there which devastates the whole place including the factories, the buildings and everything, they lose practically the whole show, even including the government buildings as well; and considerable loss of human life. And then in respect to Cuba, in Cuba we know that a revolution may arise at any time and destroy the existing government and thereby make valueless such government securities as our Canadian banks may hold. In other words, in my view, the business of banking and the hazards of banking in foreign countries are considerably greater than they are in Canada. On April 31st of this year it may interest the committee to know that our banks had only \$197,000,000 invested in foreign countries. In 1926 the Canadian banks had \$511,000,000 invested outside of Canada as against \$1,161,000,000 invested in Canada. Get those figures.

Mr. KINLEY: Is that not to their credit, to have that; it shows efficiency?

Mr. SLAGHT: I commend our Canadian banks, as I said the other day, doing foreign business. I think it is a splendid way to keep us on the map of the world and to assist our trade, particularly our foreign trade; but I am concerned that parliament has fixed no cash reserve whatever. You note the language on the 5 per cent which Mr. Cleaver uses, as being insufficient—

Hon. Mr. HANSON: There is one statement you just made I do not think I should let go unchallenged, that we had \$500,000,000 odd invested outside of Canada; you left the inference that that was money taken from Canada to invest outside of Canada, which is not correct; it is the money of depositors in those countries that is being invested in those countries and their deposits were always larger than their investments. •

Mr. SLAGHT: I have not said that it is being taken from Canada.

Hon. Mr. HANSON: You left that inference.

Mr. SLAGHT: In any event it comes to this, let me tell you that it is invested down there and should it be lost by a revolution in Cuba or a hurricane in Nassau, it is the Canadian banks' shareholders, for whom some of the members have shown great solicitude, that would have to lose the money. I do not care whether the depositors put it up there or not, if they take losses on loans in foreign countries it is the head offices of the Canadian banks right here in Toronto and Montreal who must make up the deficit and they must make it up out of Canadian dollars ultimately, and they can be forced to absorb their losses.

The CHAIRMAN: I think you have overplayed your Nassau a little.

Hon. Mr. HANSON: I think so too.

Mr. KINLEY: Yes.

Mr. SLAGHT: Well then if you care to make any statements of fact which shows any inaccuracy in what I have said, you are at liberty to do so.

Mr. McNEVIN: Your statement is that there should be a far more substantial inside reserve in respect to business of that kind.

Mr. SLAGHT: Did you say inside reserve, that I want them to hold more of them; I do not think so. If you will consider section 59—and it is wide open as to what cash reserve the banks need to carry for their foreign business—it is not wide open—it is in the discretion of the minister; he might have fixed a quota in his regime as minister or he may have adopted a quota or standard of cash reserve for foreign business that came from his predecessor—we do not know. It might be interesting if the minister has that information handy that we should know that before we leave section 59. It may be solid, it may be O.K., there may be no need for apprehension; but it is only once in ten years that we get a chance to protect the people with regard to the Bank Act, and I think it is a matter we could well know the truth about.

Mr. MACDONALD (*Brantford*): Did I understand you to say it would be the shareholders who would lose if these disasters took place in these other countries?

Mr. SLAGHT: They would first lose before any depositors would lose. The shareholders would lose all their capital invested, all their reserves, which are \$287,000,000 in all combined, and they would lose 35 per cent of their double liability which they now sustain, and if they lost it up to the shareholders' capital and reserve the depositors then would lose except by the fact that probably the Bank of Canada would come to their rescue, and that would be the taxpayer again who would be paying. That is a dire situation that I do not look forward to as losses being such that the taxpayer would be tapped; but is not it something this committee might well know about? Is it not something they should spend five minutes on before we leave section 59? I would bespeak

from the bankers themselves co-operation in seeing that this foreign business is put on a sound footing. Their suggestions as to what the reserve in foreign countries should be might be of value to the committee and of value to the minister.

Now, Mr. Chairman, I am about to conclude. I want to give one or two facts to the committee that might be helpful. Some little while ago *Fortune Magazine* conducted a poll in the United States in regard to the reform of the banking system. Fifty-seven per cent wanted the United States government to regulate the bank set-up, and only 25 per cent wanted the banks to be left alone. That is the *Fortune* poll—that was late in 1942.

Mr. KINLEY: They were all closed up, you know, two years ago. They did not weather the gale. They went down under the hurricane.

Mr. SLAGHT: My friend is jocular about the hurricane in Nassau, but I was there two days after one swept through there and it is a pitiful sight.

Our Prime Minister, about four weeks ago, speaking in the House of Commons, on the setting up of a new department of reconstruction, uttered some very noble and optimistic words. He said that he hoped in the future in the reconstruction period that Canada would be able to reduce taxation and decrease our national debt. Now, that is splendid optimism even for the future.

Mr. KINLEY: Who said that?

Mr. SLAGHT: Our Prime Minister, the Right Hon. Mackenzie King.

Mr. KINLEY: Balance the budget?

Mr. SLAGHT: That was not in the budget. You will recall he was introducing the resolution or bill for setting up the new department of reconstruction.

Mr. KINLEY: What did he say?

Mr. SLAGHT: I am not quoting, I am paraphrasing. He said that he hoped that Canada in the near future would be able to reduce taxation and decrease her national debt.

Mr. KINLEY: Very good.

Mr. SLAGHT: Yes. Now, I want to suggest to this committee that unless we start at the foundation stone of reform—that is monetary and economic reform—we have not a snowball's chance to do either. You have got to begin at the beginning; or, in other words, some of the pre-war institutions have got to move over in the reconstruction future period. Henry Wallace the other day in the United States—there is a parallel situation there—said that the common people are on the march; Sir Stafford Cripps in England the other day said that there must not be the disgraceful contrast of great poverty and great wealth in the days to come; George Fuller, president of the great Curtis Publishing Company in the United States, and chairman of the board of the National Manufacturers' Association—certainly a solid and conservative organization—in an address in Atlantic City recently warned an audience of 400 bankers that the people's revolution is coming fast. Now, my view is that private enterprise should do the job, we will be delighted—I think most of us, with one notable exception possibly—to see private enterprise do the job; but it has got to do the job; it won't do to sit in a committee of parliament and talk about the job we are going to do, and the place to begin is in this Committee on Banking and Commerce, and the reform to set up here is the reform, in my humble submission which I have advocated to you. I thank the committee for their very patient hearing, and I shall be glad to answer any questions.

Mr. CLEAVER: Mr. Slaght was good enough to say that he would answer questions, and I have one or two questions I would like to put to him so that

I may understand his proposal before voting on it. Mr. Slaght, what amount do you say the current deposits amount to in round figures?

Mr. SLAGHT: I will give you the exact figures. Do you mean the loans or deposits?

Mr. CLEAVER: Current deposits.

Mr. SLAGHT: Current deposits in April.

Hon. Mr. HANSON: Demand deposits.

Mr. SLAGHT: You can get that from the Bank of Canada's report of May 1944, which Mr. Towers told us means the 30th of April of this year. I refer to page 35. In April their demand deposits were \$1,980,000,000.

Mr. CLEAVER: And that is the figure, then, which your amendment would affect—that is the amount that we are talking about?

Mr. SLAGHT: I am talking about future loans and future purchases—I am not talking about present moment deposits.

Hon. Mr. ILSLEY: Oh, Mr. Slaght, that is what I tried to get at the other day. I thought your amendment meant that against the existing current deposits 100 per cent reserve must be held, and also against any additional deposits in the future. I shall read your amendment: "That clause 59 be amended by striking out in the second line thereof the word "five" and substituting therefor the word "one hundred", and by inserting before the word "deposit" in the third line thereof, the word "demand".

The section would read:—

The bank shall maintain a reserve which shall, as provided in the Bank of Canada Act, be not less than one hundred per centum of such of its demand deposit liabilities as are payable in Canadian dollars and such reserve shall consist of a deposit with the Bank of Canada and of Bank of Canada notes held by the bank,

and so on.

Mr. SLAGHT: Yes, Mr. Cleaver is correct in suggesting—I was confusing time or savings deposits. If this amendment carried they would require to carry cash reserves against their demand deposits.

Mr. CLEAVER: And taking that one 1 billion, 980 million dollars, in order to bring the question down to the net results so far as interest savings are concerned I assume we should first take from that amount the 10 per cent which is now held by the banks as a reserve against these deposits? Is that correct?

Mr. SLAGHT: They already hold 10 per cent.

Mr. CLEAVER: So that would bring the net amount that we are talking about down to roughly \$1,800,000,000. What interest savings do you believe would result? Do you figure it at 2 per cent or 3 per cent on that amount? What interest savings do you think would result?

Mr. SLAGHT: I have not mentioned interest saving on that amount. You misunderstand. It is another proposition when you come to government borrowing. With \$2,700,000,000 of government borrowings I say that \$40,000,000 would be the saving there, and that is the only interest saving I have pointed out in this connection.

Mr. CLEAVER: Your proposal is that the banks compulsorily must set up a cash reserve against deposits with respect to these demand deposits?

Mr. SLAGHT: That is right.

Mr. CLEAVER: That means that the banks would have \$1,900,000,000 which they would not be permitted to invest in securities, loans and otherwise, and as a result there would be a saving effect. Instead of the banks holding Dominion of Canada interest bearing bonds for \$1,900,000,000 they would then hold Dominion of Canada cash for \$1,900,000,000.

Mr. SLAGHT: That is the easy way to get it. They could walk over with \$1,900,000,000 in bonds and get cash and hold it.

Mr. CLEAVER: I am not suggesting there would be any difficulty. All I am trying to do is to find out the saving which you believe would result from your amendment.

Mr. SLAGHT: The saving comes, you gather; in the fact that if they did that then to that extent the taxpayer would not pay interest on the \$1,900,000,000.

Mr. CLEAVER: The Dominion of Canada would supply the \$1,900,000,000 in Bank of Canada cash which is interest free in place of the \$1,900,000,000 of Dominion of Canada bonds which carry perhaps 3 per cent?

Mr. SLAGHT: That is right.

Mr. CLEAVER: What interest rate would you figure the saving to be? Do you wish me to figure it at 2 per cent or 3 per cent?

Mr. SLAGHT: I do not wish you to do any figuring at all. Let me tell you where the saving would ensue. It would ensue on the same ratio that the \$40,000,000 bears to the \$2,700,000,000 because Mr. Towers told us he estimated that the taxpayers pay to the private banks \$40,000,000 a year on the debt they owe the banks of \$2,700,000,000. You can take your pencil and see how much it would save on \$1,900,000,000.

Mr. CLEAVER: It would perhaps be \$34,000,000.

Hon. Mr. HANSON: It is varying amounts because there are varying rates of interest.

Mr. CLEAVER: May I take the ratio and let us call it \$34,000,000. I think that is fairly close.

Mr. SLAGHT: I think it is. What did you say, Mr. Jackman?

Mr. JACKMAN: It is good enough for his argument.

Mr. CLEAVER: I think \$34,000,000 would be fairly accurate.

Mr. SLAGHT: You have not got the right figure.

Mr. CLEAVER: If you give me that again I will figure it exactly.

Mr. SLAGHT: Roughly to do that you have to take the 10 per cent off that they now hold; you take \$190,000,000 off \$1,900,000,000 which leaves \$1,710,000,000, does it not, or let us say \$1,700,000,000. Then you take 17/27th of \$40,000,000 and you have your answer.

Mr. FRASER (*Northumberland, Ont.*): But they get something for that, do they not?

Mr. SLAGHT: I do not want to handle too much at one time.

Mr. CLEAVER: Roughly \$30,000,000. It is a saving of \$30,000,000 which means then that bank earnings would be reduced \$30,000,000 provided they are not able to effect any savings elsewhere.

Mr. SLAGHT: If you call it earnings I will go with you but it is a beautiful piece of money coming in.

Mr. CLEAVER: It would reduce bank earnings \$30,000,000. Let me now refer you to the speech in the house of the Minister of Finance on the 2nd of May. On page 11 of that speech the total amount paid to shareholders during the year 1943 is shown as 9.6 million dollars.

Mr. SLAGHT: That is right.

Mr. CLEAVER: If bank earnings are reduced \$30,000,000 and no other savings can be effected I suggest to you that your proposal would not only wipe out all of the shareholders' dividends but would still leave a debit balance of \$17,000,000.

Mr. SLAGHT: You had better look at the \$22,000,000 on top of the dividends. They earned in the last year \$22,000,000 more on top of the 9.6.

Mr. CLEAVER: I do not find that.

Mr. SLAGHT: They earned a gross of \$47,000,000; they paid taxes of \$15,000,000. That left \$32,000,000 and they paid 9·6 millions in dividends which left \$22,000,000.

Mr. McNEVIN: What did they pay the staff with?

Mr. McGEER: That was after operating expenses.

Mr. CLEAVER: I do not find that amount, Mr. Slaght.

Mr. SLAGHT: I will help you to find it then.

Hon. Mr. ILSLEY: May I suggest, Mr. Cleaver, that Dr. Clark has made an analysis of the effect of the proposal taking the most recent figures. Would it not facilitate proceedings if that were given now?

Mr. SLAGHT: I hope Dr. Clark has included therein a proper service charge against the large firms that are being serviced and who are not paying anything for it now because if he has not he has not got a true picture.

Hon. Mr. ILSLEY: I do not know. He has just analysed the effect of your proposal.

Mr. GRAY: You had better answer Mr. Cleaver first, Mr. Slaght.

Dr. CLARK: I took the figures at May 31, 1944, at which time demand deposits of the banks were substantially higher than they were at April 30. In finding the total of demand deposits you not only have to include demand deposits payable to the general public but you also have to include demand deposits payable to the dominion government and to the provincial governments. If you take the total demand deposits so calculated as at May 31 you will find that the total was 2,755·7 million dollars. A 100 per cent reserve against that total of demand deposits would mean \$2,755·7 millions of Bank of Canada cash that they would have to keep against demand deposits.

They would obviously have also to keep a reserve against their notice deposits. I do not know how much they would find it necessary to keep but let us say 5 per cent—and I should think that would be the minimum. Now the notice deposits, or savings deposits, as of the same date amounted to 2,065·9 million dollars. Five per cent of that gives you 103·5 million dollars.

Hon. Mr. HANSON: That is not large enough.

Dr. CLARK: It may not be but I am taking that for the sake of conservatism. The total of savings deposits is \$2,065·9 million.

Mr. SLAGHT: My amendment does not require any reserve being held against notice deposits.

Dr. CLARK: In actual practice the banks obviously would have to keep a cash reserve against their notice deposits.

Mr. SLAGHT: One hundred per cent against demand deposits.

Dr. CLARK: They are required by law under your amendment always to keep a 100 per cent cash reserve against demand deposits. All their cash is going to be needed solely for these demand deposits, but they have got to have something to meet their savings deposits withdrawals and I think it would be at least 5 per cent they would find it necessary or prudent to keep. That is another 103·5 million dollars, making a total of 2,859·2 million dollars. That total does not take into account the cash reserves that they have to keep against their foreign business, but let us forget that. Let us assume that the total cash reserves that they would be required to keep as of May 31 under this amendment would be 2,859·2 million dollars. On that same day their holdings of Bank of Canada cash, in other words their present cash reserves, were 516·4 million dollars. So that they would be short by at least 2,342·8 million dollars. How would they get the extra cash reserves? I presume Mr. Slaght means that they would have to sell securities that they hold in order to get Bank of Canada cash. Let us assume—

Mr. SLAGHT: Do you want me to answer that?

The CHAIRMAN: Suppose we allow the deputy minister to finish.

Mr. SLAGHT: He asked a question and then he went on.

The CHAIRMAN: When the deputy minister finishes his statement, then you can ask questions, Mr. Slaght.

Dr. CLARK: I assumed that is what was intended. I do not see how else they could get cash. I assume that they sell 2,342·8 million dollars worth of securities to the Bank of Canada and get Bank of Canada cash in exchange.

Mr. SLAGHT: Or deposits.

Dr. CLARK: Well, cash is either notes of or deposits with the Bank of Canada.

Mr. McGEER: It is the same thing.

Dr. CLARK: They could do that, because at May 31 they had \$3,011,000,000 in dominion and provincial direct and guaranteed securities; and on the same ratio that applied at the earlier period, probably about \$2,700,000,000 of these would be dominion securities.

Mr. SLAGHT: That is the figure Mr. Towers agreed upon with me?

Dr. CLARK: Yes. Last year their average rate of return, or the average rate of interest on dominion direct and guaranteed securities which they held, was 1·59 per cent. Let us just round that off to 1½ per cent. If they then have to sell \$2,342·8 million of dominion securities—and they would be the securities with the lower rates of interest—they would have a loss in revenue, on the basis of the 1½ per cent average rate of interest, of almost exactly \$35,000,000. That is what they would lose.

Now, what have they got? On the basis of this table which the minister put on *Hansard* at page 2620, they had surplus earnings out of current operations, or surplus gross current receipts, if you like, of 29·6 million dollars. That is the difference between their current operating earnings of 144·5 million dollars and their current operating expenses of 114·9 million dollars. Remember, that is before losses or provision for losses or for contingencies. In other words, they had available out of their current operations, current operating earnings of 29·6 million dollars. Going down two or three lines further, you will notice that the net amount of their capital profits was \$2,000,000. So the banks would have a total earnings of 31·6 million dollars before they paid any dividends or before they made any provision for payment of losses or provision for losses or for general contingencies. On that basis you would have a loss of revenue of \$35,000,000, which would more than wipe out the total surplus earnings which they had last year. Let me repeat, the total of surplus earnings I mentioned before is before taking care of any losses, making any provision for losses or contingencies or before paying any dividends to shareholders.

Then I think it should be remembered that if this amendment goes into effect, this process would continue. During the current year the dominion would presumably have to finance that portion of its requirements which it could not meet out of taxation or borrowing from the public, by borrowing from the Bank of Canada. That would increase deposits in the chartered banks and a certain proportion of those deposits would be demand deposits. So the banks would find it necessary to increase their cash reserves to provide a 100 per cent reserve against the increase demand deposits, and they could only get that cash reserve by selling securities to the Bank of Canada. That would mean, of course, a further loss in receipts, and that process would continue indefinitely, presumably.

Hon. Mr. HANSON: That is to say, they would be in the red by about \$4,000,000?

Dr. CLARK: On the basis of the 1943 earnings, they would be in the red nearly \$4,000,000; 3·4 million dollars, I think.

Mr. CLEAVER: Plus their actual losses?

Dr. CLARK: Oh, yes; plus their actual losses and provision for losses.

Hon. Mr. HANSON: And the shareholders would get the little end of the stick—nothing.

Dr. CLARK: Everybody would get the little end of the stick.

Mr. McGEER: That means, Dr. Clark, if your statement is correct—and we will assume that it is—that the banking business in Canada has now slumped into a condition where it cannot operate unless it secures from the government interest charges for the loan of bank deposit credit to the extent, roughly, of \$20,000,000 a year.

Mr. SLAGHT: Mr. McGeer, will you permit me to say this and then go on. Dr. Clark long ago asked me a question wrapped up in his statement, and then he asked another one. I am prepared and want to answer them both; but I am quite content that Mr. McGeer shall ask his question. But I do not want Dr. Clark to think that I am pushing around my obligation to answer his questions. I want the opportunity to answer them, and I want to put two questions to him right on top of them.

Hon. Mr. ILSLEY: May I answer Mr. McGeer's question. I do not think the word "slumped" is right; but it is perhaps correct to say that the banking system is in a position where it must buy government securities, and that is due to the fact that deposits are enormous.

Mr. McGEER: Well, when I said "slumped", Mr. Minister, what I had in mind was that the banking business—

Mr. NOSEWORTHY: Has changed.

Mr. McGEER: —was a thriving private enterprise up until about 1920, that kept very far away from the financing of long-term investments and the financing of public enterprises. I think, if you will examine the records, you will see that it was following the last war that our chartered banks began the process of accumulating long-term public securities.

Dr. CLARK: These are not long-term public securities.

Mr. McGEER: Long and short.

Dr. CLARK: Oh no, short and medium.

Mr. McGEER: Short and medium.

Mr. SLAGHT: And they are always renewing and pyramiding it.

Dr. CLARK: The securities that they hold in their portfolio, as you saw from the figures are for the most part those that mature within two years and then there is a smaller volume of bonds maturing after two years. Almost every dollar of them would be securities that would mature within ten years and most of them would mature within five or six years.

Mr. McGEER: The point I am making is this, if the banking business could not function as a private enterprise servicing private enterprise it must depend upon the earnings from finance and public enterprise to the extent which is now of a ratio of three to one, about three thousand million public securities and about nine hundred million of current commercial private loans, then is it not pretty nearly time that they become recognized as an institution that had evolved into a state public utility that should be operated as such?

Mr. NOSEWORTHY: Yes.

Hon. Mr. HANSON: There is no argument about that.

Mr. McGEER: That is what I am wondering about, you are putting this private banking system in a mighty desperate position with that argument.

Dr. CLARK: I was just citing the facts, Mr. McGeer.

Mr. McGEER: I think they are mighty dangerous facts, if they are true. Now, might not this be the situation; the banks finding it easier to earn \$40,000,000 interest from public bonds are indifferent to the real business of commercial banking; that is, the assistance of private enterprise in the development of the industries and the trade of the nation?

Dr. CLARK: They would infinitely prefer, Mr. McGeer, to make current loans because they make a good deal more profit on them.

Mr. McGEER: Then our economic system—

Hon. Mr. HANSON: Might I ask a question there?

Mr. McGEER: All right, go ahead.

Hon. Mr. HANSON: Of the total amount of government obligations held in the banks for a total of some \$900,000,000 are they not called certificates of deposit earning three-quarters of one per cent; we have heard many times that that is the accumulated amount that they have loaned to the government to make up the difference between taxation and public loans and outgoings. These in fact are forced loans, are they not. The banks are asked to do that to help tide the country over with the idea that they will be repaid with securities when they were sold to the public. Perhaps I should not have used that word "forced" loans.

Dr. CLARK: I would not say they were forced loans; we negotiated them.

Hon. Mr. HANSON: We negotiate those loans because they do not want to do it.

Mr. SLAGHT: Then Dr. Clark you pointed out that if the banks set up a 100 per cent reserve as I have suggested, I think you work out a figure of \$2,342,000,000?

Dr. CLARK: That would be the increase—my guess at a minimum figure—in the cash reserves they would have to keep under your proposal.

Mr. SLAGHT: Then you gave me the answer to my next point before I had an opportunity of putting it to you; and they would take these dominion of Canada interest bearing securities over to the Bank of Canada and Canada would pay the private bankers' debt on that, that is to the extent that they furnished them with money, would they not?

Dr. CLARK: You mean the Bank of Canada.

Mr. SLAGHT: Yes, the Bank of Canada.

Dr. CLARK: That would be my guess.

Mr. SLAGHT: Your guess would be quite right as far as I am concerned; and I will be delighted to have them do that. Now then, would you mind though, if the banks have come to the state of affairs which Mr. McGeer pointed out to you and if you are so alarmed, going into the red, would you mind elaborating for me; you get the money the ten private banks loaned to the dominion of Canada and all the provinces of Canada on interest bearing securities; take the year 1926, when I may tell you it was the trifling sum of \$344,000,000.

Dr. CLARK: Dominion-provincial securities which they held on that date.

Mr. SLAGHT: Dominion and provincial securities which they held on that date, and that is the extent of the dominion-provincial loans that they made and were carrying on that date.

Dr. CLARK: Oh no, they may have had other loans to provinces. I do not think they would all show under securities.

Mr. SLAGHT: Oh, but it would be a false statement: securities dominion and provincial at the end of 1926, \$344,000,000—and it is carefully divided into under two years and over two years, and that is the total of both. Is it a false statement?

Mr. TOMPKINS: The loans to provincial governments come under a different heading in the statement. It is an express item; and at the end of December 1926, just for the purpose of accuracy, they amounted to \$25,000,000.

Mr. SLAGHT: Loans to provincial governments?

Mr. TOMPKINS: Loans to provincial governments. At that time there were no loans to the dominion government.

Mr. SLAGHT: Then it is far worse than I thought it was from this standpoint. You are telling us—I am taking this statement which is placed on the record, I thought it would be accurate.

Mr. TOMPKINS: It is the holdings of securities.

Dr. CLARK: A government may borrow directly from the bank, make a direct loan.

Hon. Mr. HANSON: And they can borrow by overdraft.

Mr. SLAGHT: Never mind that for the moment; did you not tell me that this is in error?

Mr. TOMPKINS: Oh no, not at all.

Dr. CLARK: Not at all, it is a matter of interpretation.

Mr. SLAGHT: Then Dr. Clark corroborated for me that the annual revenue they had in the dominion and provincial securities in the year 1926 was \$344,000,000 outstanding—that is the figure?

Dr. CLARK: Plus the \$25,000,000.

Mr. SLAGHT: And then, Mr. Tompkins found that we were lending \$25,000,000 more to the provincial governments.

Mr. TOMPKINS: I haven't found it, it was on the record all the time.

Mr. SLAGHT: It was on the record all the time; it is in this record; add the \$25,000,000 to the \$344,000,000 and we get \$369,000,000.

Dr. CLARK: That is correct.

Mr. SLAGHT: Yes, and the chartered banks were paying dividends of 12 per cent in the year 1926, were they not?

Hon. Mr. ILSLEY: You mean to shareholders?

Mr. SLAGHT: Let us see if this thing is sound or unsound; I suggest to you that the banks were up against this—

Mr. TOMPKINS: We have already filed a statement on that.

Mr. SLAGHT: I know you made a guess at that, I want to see what they were.

Mr. TOMPKINS: On at least three occasions I pointed out very distinctly that those dividends are expressed in percentages in relation to the par value of the shares and they are not percentages in relation to shareholders' equity.

Mr. SLAGHT: We have heard that they were.

Mr. MACDONALD (*Brantford*): When Mr. Slaght goes to the table and indulges in conversation with the people sitting there, those who are sitting down here cannot hear what is going on.

Mr. SLAGHT: I am very sorry, that is quite wrong of me so I will return to my place. Might I just finish this: now, Dr. Clark, with \$369,000,000 only of provincial and federal revenue from interest bearing securities outstanding in 1926 we come now to this point, do we not, that they paid dividends of 10 and 12 per cent—Mr. Tompkins will look it up. How do you account for the fact that in the year 1944 with the best business they had ever done in 1943, that they are going to go into the red if they do not still rely on dominion government borrowings?

Dr. CLARK: Because their liabilities in the form of deposits have increased enormously and it costs money to operate a deposit business.

Mr. SLAGHT: Certainly. Now then, I ask you this, you have not the per cent in there for service charges, have you?

Dr. CLARK: The service charges are included in the current operating earnings.

Mr. SLAGHT: But with your figures we would get \$4,000,000 into the red; you have not included the service charges in them?

Dr. CLARK: Oh yes.

Mr. SLAGHT: In the \$3,000,000 odd?

Mr. TOMPKINS: \$3,300,000; I think I put that on the record.

Dr. CLARK: That is included in the \$144,500,000.

Mr. SLAGHT: Then I must correct myself in that respect; instead for that service charge of \$3,000,000 which probably covers a multitude of little fellows who pay their fifty cents a month for a chequeing privilege, you have included no service charges on accounts of the type to which I referred earlier, the big concerns such as Eaton's and John Inglis and the like?

Dr. CLARK: If I recall it correctly, Mr. Slaght, Mr. Wedd speaking on behalf of the Canadian Bankers' Association explained that if service charges were not levied against certain depositors, their deposit accounts were required to be maintained with very substantial idle balances on which the bank earned money in one way or another, a service charge or a charge comparable to a service charge is levied against their accounts. I would like one of the bankers to speak on that if it has not been made clear.

Mr. SLAGHT: It has not been made clear, I may tell you; let me ask you this: when they had only loaned last year to their Canadian customers \$962,000,000, that would include probably \$50,000,000 to the Wheat Board on which there was no risk in the world because of what was guaranteed by the government—they only loaned \$962,000,000 or only had safety deposits of \$2,250,000,000—of what in the world use to the bankers were these large current deposits that the big firms kept on deposit with them, what use were they to the bankers?

Dr. CLARK: The funds are invested in one or another of the assets shown on the asset side of any bank balance sheet.

Hon. Mr. HANSON: Mr. Chairman, may I suggest this for the consideration of the committee, that the condition upon which Mr. Slaght has been dilating has been brought about in a large degree because the government of this country has been financing business, and that is a situation which should not obtain. The government of Canada has been financing business—not the commercial banks—on war production, and I am not condemning the practice—it probably was necessary—but it had the resultant effect that the banks to-day have more government securities than they want; they would much prefer to be financing business. That is a situation that we ought to get away from as soon as possible and get the government out of the business of financing business. That is the complete answer to the situation.

Mr. SLAGHT: It is not the complete answer; I think it is a factor which Mr. Hanson properly has drawn to the attention of the committee. What I have said is this, that one reason why the bankers have such a small amount relatively out at loan in this wonderfully prosperous time—and they have only \$962,000,000 out to private borrowers—one reason is that the government has been financing a good deal of industry and, therefore, the private fellows have not had to come to the banks to borrow. But surely the government is not

going to go on financing industry when peace time comes. I am looking forward to the future, and I am trying to stop this lending of money to the government at interest when the Bank of Canada is there. If in the future we remedy the situation, then as we all know on \$962,000,000 plus \$193,000,000 for foreign loans the bankers took in \$55,000,000 interest last year whereas on government lending they lent at a much cheaper rate and only took in \$40,000,000, or three times as much relatively. Let us see that the banker gets some of that stuff out of the vault in the reconstruction days and lend it to the Canadian public and stop this drain on the taxpayer.

Hon. Mr. HANSON: They would be glad to do it.

Mr. SLAGHT: I hope we have a convert; I am not sure of it.

Mr. McGEER: I did not catch the answer to this question. In 1926, at page 35 of the Bank of Canada's report for 1943, the figure shown for dominion and provincial loans is \$344,000,000. Now, of that \$344,000,000 how much was dominion and how much was provincial?

Mr. TOMPKINS: We gave a breakdown as between the dominion and provincial securities as of March 31, 1944, but we did not give a breakdown for preceding years.

Mr. SLAGHT: You have been using 11 per cent.

Mr. TOMPKINS: I think that is not far wrong. It would have taken considerable time to secure these additional figures.

Mr. SLAGHT: I think that is close enough.

Mr. McGEER: And in 1929 that would be the same?

Mr. TOMPKINS: Let us assume it is.

Mr. McGEER: You know that, don't you?

Mr. TOMPKINS: Well, I see it from time to time, but of course these figures are constantly fluctuating with respect to both dominion and provincial.

Mr. SLAGHT: Why have they not been separated?

Mr. TOMPKINS: Up until the time when Mr. Slaght proposed an amendment to split these columns they were only reported in one total; that was under the statute, and I think in a sense it is a reflection of what might be termed national securities. It is true it did not include municipal securities but it included dominion and provincial.

Mr. McGEER: And the municipal securities are contained in the current loans?

Mr. TOMPKINS: No, the municipal securities are contained in a separate heading under Canadian municipal securities at the present time; and there again as in the case of provincial governments the banks make loans to the municipalities as well, and these are shown separately in the monthly return in column—you will find that in asset column No. 24 of the return. As at the end of April of this year, loans to municipalities amounted to \$48,300,000—

Mr. McGEER: Mr. Tompkins, I think this would be a fair inference, that it was really since 1932 that the chartered banks began to move into the field of increasing the holding of public securities in volume over and above current loans?

Mr. TOMPKINS: Somewhere about that time by reason of the fact that they were unable to secure an outlet for sound commercial loans.

Mr. McGEER: Now, let me show you an illustration of that according to these figures: in 1929 I make the total of call loans and current loans—call \$267,000,000; current \$1,434,000,000, making a total of \$1,610,000,000; in 1934, that figure had fallen to \$909,000,000 or \$701,000,000; less on call loans and current loans—that is to commerce, industry and trade in the nation.

Mr. TOMPKINS: What is the date?

Mr. McGEER: 1943.

Mr. TOMPKINS: Is that the calendar year end date?

Mr. McGEER: April, 1944.

Mr. TOMPKINS: These are average figures in the total you are quoting—averages computed from the month-end published figures of the banks.

Mr. McGEER: In any event it shows that the banks were servicing Canadian trade, commerce and industry in 1929 to the extent of \$1,610,000,000 and in 1944—the same figure from the Bank of Canada—that had fallen to a figure of \$909,000,000 or decreased \$701,000,000; and in the year 1932 the banks were servicing Canadian trade industry and commerce to the extent of \$1,149,000,000 as against \$909,000,000 in 1944, or a decrease on this year over the depression year of 1932 of \$240,000,000. Now, those figures are taken from the Bank of Canada report; you do not disagree with that?

Mr. TOMPKINS: I do not disagree with anything published in this report.

Mr. McGEER: I put this to you: as long as we go on discounting public securities with the chartered banks and sustaining their operations with the payment of interest on public securities, what incentive have they to go out and develop the more risky and more difficult financing of private enterprise?

Mr. TOMPKINS: Well, I think Dr. Clark explained a moment ago that the banks would be only too anxious to increase their loans if they could find satisfactory outlets.

Mr. McGEER: Quite naturally the banker looks for the best borrower he can get.

Mr. TOMPKINS: And he makes more money on that type of asset than he does upon his investments.

Mr. McGEER: But he looks for the best borrower he can get if he is a good banker.

Mr. TOMPKINS: Well, there is naturally an element of choice in the risk.

Mr. McGEER: How can private enterprise compete with the government in the merchant banking system if the banker is going to be given the privilege of choosing between loans to private enterprise and loans to the government?

Mr. TOMPKINS: I do not think it is a question of choice, I think it is a question of what private enterprise needs. Our government needs, so far as the purchase of government securities by the banks are concerned, is a condition brought about by the war.

Mr. McGEER: I have had conversations with several prominent men, some of them bankers, and they put this proposition up to me. I am discussing now the question of private enterprise going to work in the post-war period.

Mr. TOMPKINS: Right.

Mr. McGEER: What inducement is there for a man owning a large investment of government bonds to convert that investment into some private enterprise in Canada?

Mr. TOMPKINS: By a man do you mean a chartered bank?

Mr. McGEER: No, I mean an individual, one of those people who own some part of the several billions of dollars of dominion government bonds that have been issued since the commencement of the war.

Mr. TOMPKINS: I think it would depend upon the type of enterprise and the prospects of reasonable profits from it.

Mr. McGEER: The answer I have had from a great many business men—in fact I met a group of them last night from the Pacific coast—is that there is no incentive for new investment in any post-war project that will give employment.

Mr. TOMPKINS: I would disagree with that opinion.

Hon. Mr. HANSON: Did they give you the reason?

Mr. McGEER: Now, I come back again. Let me put this proposition to you. A man is possessed of a million dollars, we will say, of dominion government bonds. He has that million dollars in a safe investment as far as he can have in Canada? That is correct?

Mr. TOMPKINS: I would say so, certainly.

Mr. McGEER: He has an earning of \$30,000 a year on it less whatever taxes he has to pay but both his earnings less taxes and his capital are absolutely safe.

Mr. KINLEY: Are they?

Mr. McGEER: They are as safe as they can possibly be in any investment in Canada.

Mr. KINLEY: That is a fair statement.

Mr. McGEER: Because that is a mortgage on all the wealth and resources of the Dominion of Canada.

Hon. Mr. HANSON: And the taxing power behind it.

Mr. McGEER: It is an entire blanket mortgage.

Mr. KINLEY: I wonder if it really is.

Mr. McGEER: What inducement is there for that man to convert his investment into a private enterprise, expanding an existing industry or developing a new one?

Mr. TOMPKINS: It seems to me I come back to my original answer. It would depend upon the type of enterprise, the prospects of success and—

Mr. McGEER: I venture to give you this answer.

Mr. GRAHAM: On a point of order, Mr. McGeer has now gone into a field in which he is bringing up arguments that have considerable merit but I do suggest they have nothing at all to do with the matter under discussion before this committee.

The CHAIRMAN: Gentlemen, may I just suggest that Mr. Noseworthy gave way to Mr. McGeer to ask a certain question. I think Mr. Noseworthy is entitled to the floor.

Hon. Mr. HANSON: I should like to hear Mr. McGeer give the reasons his friends advanced. I know the reasons.

Mr. McGEER: Mr. Towers gave them to us.

Hon. Mr. HANSON: The reason is government taxation and the government going into business. Mr. Towers told us right here in this room why free enterprise cannot function in this country any more.

Mr. MACDONALD (*Brantford*): I think Mr. Graham's objection is well taken. I do not think that the question raised by Mr. McGeer has any direct bearing on the Bank Act.

The CHAIRMAN: Mr. Noseworthy has the floor.

Hon. Mr. HANSON: A further reason is that the government will not declare its post-war taxation policy.

The CHAIRMAN: Mr. Noseworthy still has the floor. Mr. Noseworthy, proceed, or I cannot hold the floor for you.

Mr. NOSEWORTHY: Mr. Chairman, the efforts of private enterprisers, Messrs. McGeer and Slaght, to save the private banking institutions and the opposition they have received from their fellow private enterprisers on the committee is, to say the least, enlightening. I am going to make a very brief statement on the amendment. I understand that the final object of Mr. Slaght's amendment is to provide ways and means whereby the Bank of Canada will finance the federal government—

Mr. McGEER: The thin edge of the wedge.

Mr. NOSEWORTHY: —at a saving of interest to the taxpaying public. I have heard no question raised in the committee about the ability of the central bank to provide that money nor have I heard any question raised about the security of the Bank of Canada on that point. I have heard only two objections, one that this method of financing would have an inflationary effect, more inflationary than borrowing from the private banks, and secondly, that it would throw a heavier share of the cost of service back upon the people who are actually receiving service. Those are the only two objections I have heard raised to the amendment.

Mr. McGEER: But it would not be more inflationary with a 100 per cent reserve.

Mr. NOSEWORTHY: I am coming to that point. Let us stop at that point. We have the Bank of Canada. That Bank of Canada can lend, I take it, not only to the federal government but to provincial and municipal governments at cost, and unless there are offsetting disadvantages which are greater than the advantages which would accrue from the saving of interest, or the difference between the interest now being paid and the cost of financing through the central bank, I am confident that the Canadian people would support Mr. Slaght's amendment. It is going to take a lot of argument to convince the Canadian public that we should continue year after year borrowing for municipal, provincial and federal purposes from a privately owned banking system when we have a publicly owned bank that can do it unless you can show the public that while they save that interest cost on the one hand they are going to incur some other disadvantages which will out-weigh the advantage of the saving.

Mr. CLEAVER: Mr. Noseworthy, would you permit an interruption? I suggest to you you have entirely overlooked—I am not suggesting you have done it intentionally—one very important feature. Mr. Slaght's amendment has the effect of denying to the current depositors of the banks their right that their money should be usefully employed in order to recompense the banks for the services which they render. In effect Mr. Slaght's amendment is a forced loan from the current depositors to the government without interest.

Mr. NOSEWORTHY: I want to get the picture first. I am coming to the 100 per cent reserve later.

Mr. CLEAVER: These current depositors have rights.

Mr. NOSEWORTHY: Wait a moment; I have the floor. You have had the floor often enough.

Mr. CLEAVER: You are leaving that feature out of your argument.

Mr. NOSEWORTHY: I will develop my argument as I like.

The CHAIRMAN: Mr. Noseworthy desires not to be interrupted.

Mr. CLEAVER: I apologize, Mr. Chairman.

Mr. NOSEWORTHY: The first point I think we want to keep in mind is that we have a publicly owned institution capable of lending at cost to federal, provincial and municipal governments, and that unless there is some offsetting disadvantage to that practice, the Canadian people will want to know why that institution is not used for that purpose. The offsetting fact that is being brought forward is the inflationary effect and the rising cost of services to those who use that banking service. Concerning the latter, I am inclined to agree with Mr. Slaght. I think it is a sound principle that those who use the facilities of the banking institution should be required to pay the cost of that instead of spreading the cost in part over the tax-paying public through the medium of interest on government securities. That is my own position on that point.

Mr. McGEER: That was recognized when they reduced the rate of interest on savings from 3 per cent to 1½ per cent.

The CHAIRMAN: Order, please.

Mr. NOSEWORTHY: In order to prevent the inflationary effect of lending to government bodies, Mr. Slaght has introduced the 100 per cent reserve into his amendment. It has been clearly pointed out or an attempt has been made to show that the banks cannot operate as privately-owned institutions on that basis. It will deprive them of a large part of their income and put them in the red. It will deprive the banks of the privilege of investing in government securities with a loss of some \$30,000,000 or \$35,000,000 a year. But it would leave them the right to invest—and I am using Mr. Slaght's words so far as I can remember them—or to loan the amount of their reserves, their capital and their savings deposits, which I think amount in total to about \$2,700,000,000. Of course, the difficulty is the one that we have been discussing for the last hour. It is the fact that at the present time the banks can only lend or have only on loan a little more than \$900,000,000 and have come to depend so largely upon their returns from government securities. Apparently Mr. Slaght and Mr. McGeer believe that if the banks were required to keep 100 per cent reserves they would get out and hustle for new loans and for new avenues in which to invest their money and would secure income to offset this loss. I am not going into the question of why the banks have come to depend more and more upon income from government securities. I think I know one of the reasons and I state it here. It is the fact that private enterprise in this country has, in the past years, become more and more monopolistic; and these huge monopolies are able to plough back their own profits into their businesses and are able to get along or are able to finance themselves without coming to the banks for assistance as the myriads of small business concerns were in the habit of doing before we had developed our present monopoly system. That is one suggestion I make. I am not saying it is the only one, but I think it is one of the factors. Whether the security offered to the banks by government interest is another factor which has made them a bit careless in the pursuit of private business, I am in no position to say. But certain it is that the trend has been for some years for the banks to come to depend more and more upon public financing for their revenue.

Hon. Mr. HANSON: Was not the cause that the government has gone into business and therefore got the money from them?

Mr. NOSEWORTHY: I am not discussing the cause. I am simply stating the fact as it is. Back in 1930 the banks had about—these are my figures—roughly or approximately .3 billion invested in government securities. In 1935 that had been raised to about half a billion, roughly; in 1943 to about 2.6 billion. In the meantime their loans to private enterprise had dropped from 1.8 billion in 1929 to \$960,000,000, including loans to the Wheat Board, in 1943. Regardless of what Mr. Hanson says or may think, I think it is generally agreed that that trend will continue after the war; in other words, whether governments be Conservative, Liberal or what not, there will be a tendency for governments to invest more money in order to maintain full production and full employment. On this point, it has been shown before the reconstruction committee that we shall need investment in capital expenditures after the war of about one and a half million dollars a year to maintain full employment.

Mr. McGEER: Where do you get that figure?

Mr. NOSEWORTHY: The best survey that has been made of the possibilities of private enterprise investing in capital investment shows that 2,400 of the largest industrial concerns in the country plan on investing about \$106,000,000 a year. I think it is impossible to get away from the fact that if we are to have full employment and maximum production, governments will be required to invest more and more public funds in the field of production, which would seem to indicate that the banks will become more and more public utilities.

Hon. Mr. ILSLEY: Where do the figures come from? Where is this survey with regard to those 2,400 industries?

Mr. NOSEWORTHY: This survey was made by the *Financial Post*.

Mr. JACKMAN: A preliminary survey.

Mr. NOSEWORTHY: A preliminary survey of 2,400 separate business firms. Questionnaires were sent out and reports were given quite fully in the *Financial Post*. The firms comprised, I think, seven of our major industries. It is not a complete picture, but it is indicative of how far short private enterprise—and this is the manufacturing end of private enterprise—will fall of meeting the post-war requirements, and the need that will remain for government investment.

Hon. Mr. ILSLEY: It is very incomplete.

Mr. NOSEWORTHY: Yes.

Hon. Mr. ILSLEY: It did not include the railways, apparently.

Hon. Mr. HANSON: The railways will spend three times that much.

Mr. NOSEWORTHY: I am merely using it as indicative. Incidentally, those concerns are responsible in peace time for 60 per cent of the manufacturing in this country. I think it is a fair indication of what may be expected.

Hon. Mr. ILSLEY: I do not think it is of any value at all, myself, because it leaves out so many industries. It leaves out the communication systems and transportation systems. It leaves out mining. It leaves out agriculture.

Mr. NOSEWORTHY: You are going to have to bring in a lot of industries to raise your capital investment from \$100,000,000 to \$1,500,000,000 a year.

Hon. Mr. ILSLEY: Where is that figure from?

Mr. NOSEWORTHY: That was a figure given in the James document.

Mr. McGEER: What was that figure, \$106,000,000; where did you get that figure?

Mr. NOSEWORTHY: That was a figure given by the *Financial Post* review of 2,400 business concerns which included all of our large or major industries responsible for 70 per cent of the total production-capacity of the country.

Mr. McGEER: I do not think there is any question about it, the surveys made in the United States have been even more alarming than that.

Mr. NOSEWORTHY: I am going to support Mr. Slaght's amendment, but I am going to support it because I feel that it is a step in the right direction; it is only a step, I do not think it will solve the problem which Mr. Slaght has raised by any means, and I am sorry that he was reluctant to take the further step that in my opinion and those of my colleagues would mend the difficulty. I am supporting it simply because I feel it is one step. I am satisfied that if the banks cannot carry on profitably without having to depend on additional government investments which the Bank of Canada can lend at cost to the people of Canada, then it is time we had a publicly-owned banking system. There is one more feature I want to point out there; there has been an abundance of evidence throughout the years that the banking system as at present constituted notwithstanding its income from government sources is still unable to meet the needs of the Canadian people and the government has had to come to the assistance of the banks by guaranteeing loans such as on wheat, by guaranteeing loans to farmers, by setting up an industrial bank and by various other measures which are all designed to enable this privately-owned banking system to function even when it has some \$35,000,000 coming in as interest on government securities. I think that the inner fears which have given rise to expressions of ardent concern show that the time has come when we should recognize that the banking system is a public utility and we should place it under public ownership where we think it belongs.

Some Hon. MEMBERS: Question.

Mr. CLEAVER: Unless the committee is ready for the question I would like to ask Mr. Noseworthy if he would answer some questions.

Hon. Mr. HANSON: Let us get this vote over with.

Mr. JAQUES: I am not prepared to vote on the situation as it stands.

The CHAIRMAN: I am just asking the question that a number of the hon. members have asked, whether the committee are ready to have the vote taken or not.

Mr. JAQUES: No, I am not. It is nearly six o'clock and I am going to suggest that you call it six o'clock.

The CHAIRMAN: If you are not ready to vote, Mr. Cleaver has the floor.

Mr. CLEAVER: Would you permit a question? You said that you did not care to be interrupted?

Mr. NOSEWORTHY: Yes, I will try to answer you.

Mr. CLEAVER: Do you concede to that of Mr. Slaght's proposal would effect a saving of between \$30,000,000 and \$35,000,000?

Mr. NOSEWORTHY: I would presume that it would effect a saving of the difference between the interest now being paid and the cost to the Bank of Canada of financing all government undertakings.

Mr. CLEAVER: Then you are aware, of course, that the earnings of the banks in Canada last year, which was a reasonably prosperous year, the total earnings of the banks on shareholders' equity on the average was 6.03 per cent; you have that figure?

Mr. NOSEWORTHY: I am not quarrelling—

Mr. CLEAVER: No, I just want to make sure of my understanding of it and I am just going to ask you one question.

Mr. NOSEWORTHY: All right.

Mr. CLEAVER: Do you consider that that is an excessive earning?

Mr. NOSEWORTHY: I have never stated at any time that I considered the banks' earnings excessive compared with for instance the earnings of Lakeshore Mines, they are infinitesimal.

Mr. CLEAVER: I take it you are not criticizing the banks for earning 6.03 per cent?

Mr. NOSEWORTHY: No.

Mr. CLEAVER: Having regard to those two things I suggest to you that the banks' deposits would have to be charged an interest rate of 1.5 per cent on all of their deposits for servicing if you are going to maintain the bank earning power at 6.03 per cent—and you are going to take \$35,000,000 from their earnings.

Mr. NOSEWORTHY: Yes, but the public—

Mr. CLEAVER: All right then, we agree on that; but deposits would have to be charged interest charge—charged, mind you, not paid—charged an interest charge, a service charge, of 1.5 per cent on their deposits.

Mr. SLAGHT: Where do you get that figure?

Mr. CLEAVER: I get that figure in this way, Mr. Slaght; I take the total amount of deposits and I take the total amount of revenue you are denying to the banks for investment on those deposits.

Mr. NOSEWORTHY: Just a minute, let me reply to that; my only answer to that is that if that is the case then the Canadian tax-paying public to-day are paying for the cost of a service which only those who are banks can give.

Mr. CLEAVER: No; I am saying this, that the servicing of those current accounts is being paid by the current account depositors through the banks' use of their money, the profitable use of their money; and I am asking you where is there anything fair about saying to the current depositors of Canada, your money must earn no interest and you must in addition to that pay a service charge.

Mr. NOSEWORTHY: Now, my whole point, Mr. Cleaver, is this: that in a publicly-owned banking system there would be no obligation to earn 6· something per cent for dividends; in the second place, that if the banks as constituted to-day are not earning enough dividends then I think in fairness to the bankers we should relieve them of that public duty and not force them to undergo a loss in paying interest.

Mr. CLEAVER: All right; I am not saying that you have no right to your own views, but I am saying this also to you; that instead of the banks being able to earn 6·03 net profits for their shareholders and being able to set aside 13·8 per cent for losses that under a publicly-owned bank with loans made to the people suggested by you—

Mr. NOSEWORTHY: I have not suggested anybody.

Mr. CLEAVER: —their liability would be more than double.

Hon. Mr. HANSON: And you would have all kinds of political pressure and everything else.

Some Hon. MEMBERS: Question.

Mr. JAKES: Mr. Chairman, it is six o'clock.

Hon. Mr. HANSON: No, it is not; let us have this vote and get it over with.

Mr. JAKES: We won't meet again on it. If you want me to fill in the time, I can do that.

Hon. Mr. HANSON: It is the case of one man holding up this committee.

Mr. JAKES: I am not holding up the committee.

Mr. McGEER: I also have something to say on this, Mr. Chairman; we cannot finish with it now.

The CHAIRMAN: All right, we will adjourn until to-morrow at 11.30 a.m.

The Committee adjourned at 6 o'clock p.m. to meet again to-morrow, July 19, 1944, at 11.30 a.m.

July 19, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. Jaques has asked for the floor. You have, have you, Mr. Jaques?

Mr. JAKES: Well, I did, Mr. Chairman, yes. But if anybody else wants to speak first, all right.

The CHAIRMAN: All right. Mr. Jaques gives way.

Mr. GRAHAM: Mr. Chairman, I have a suggestion.

The CHAIRMAN: Mr. Graham has the floor.

Mr. JAKES: I am not giving way entirely; but if anybody else likes to speak first, that is all right with me.

Mr. GRAHAM: I was going to suggest that this is a matter actually of great interest if not concern to the chartered banks, and we have a number of the officials of those banks with us. I think you, Mr. Chairman, should ask them if they care to present their views on Mr. Slaght's amendment.

The CHAIRMAN: You are referring specifically to clause 59?

Mr. GRAHAM: Yes, to section 59, and Mr. Slaght's amendment.

Mr. SLAGHT: Mr. Chairman, I also have a suggestion that I should like to place before the committee. It is that we should call Mr. McGeer as a witness. Before the committee deals with that suggestion, may I tell you why I hold

that view. I believe that Mr. McGeer is particularly qualified to be of assistance to the committee on the problems involved under section 59. He was a member of the British Columbia legislature for many years. Then he conducted for seven years, on behalf of the province, the freight rate differentials case. He was mayor of Vancouver for a number of years. He built the city hall there on 3 per cent money and paid for it in full in ten years, which is acknowledged to be a real feat in civic affairs. He appeared before the Banking and Commerce Committee in 1934 as a special witness, being asked to come here by some members of his party, coming at his own expense. The committee, under the chairmanship of Mr. R. B. Hanson, at the close of his testimony which lasted for some time, moved and carried a unanimous resolution that the committee defray his expenses because of the value of the information he had been able to place before the committee. He has been a member of this House of Commons now for nine years and put forward a plan in 1934 in his book "The Conquest of Poverty" and a plan filed with the committee, most of which basic reforms then put forward by him, including the nationalization of the Bank of Canada into a fully owned government bank, are now facts accomplished. Then there is just a further incident which I will mention, although it is not my real reason for my suggestion. The great family journal, the *Ottawa Journal*, in a recent editorial on May 12, 1944, advocated calling Mr. McGeer and Mr. Slaght as witnesses before the committee so that they might be cross-examined with a view, as they put it, to getting right down to brass tacks. The managing editor sent me a copy of the editorial as a sort of challenge, which prompted me yesterday to offer myself as I did to the committee for examination by any member of it or by representatives of the bankers. That concluded in five minutes so far as I was concerned, but I should like to have Mr. McGeer called before the committee.

The CHAIRMAN: Mr. Slaght, I of course hesitate to rule in the matter. It is a matter that is left to the committee. But Mr. McGeer is a member of the house and Mr. McGeer is a member of the committee. I have an idea, from what has passed, that the members will not hesitate to examine Mr. McGeer's views as a member of the committee; and it seems to me that it is unnecessary to designate him as a witness. After all, we are here for an exchange of views. Mr. McGeer has, of course, the right to express his views, and other members have the right to question him. I do not see any point in naming Mr. McGeer as a witness. Simply as a member, he has the full privilege of stating his views.

Mr. SLAGHT: What you have been good enough to say, Mr. Chairman, I think points the view that I present, that he should be a witness; because you may recall that for one and a half hours yesterday morning when I was expressing my views for the first time on what I have always regarded as an important aspect of the amendment of this bill, I was interrupted on an average of every two minutes. While I had no objection thereto, in the afternoon I asked that such interruptions should be discontinued and that any questions should be deferred until the end. I did feel that we progressed much more rapidly and much more intelligently than we did by having the cross-fire of four or five able gentlemen interrupting, one interruption bringing on another. It was to avoid that situation and in order that Mr. McGeer might have the opportunity of making a statement and then in a dignified way be cross-examined, that I made the suggestion. It would take this committee out of the sort of dog fight that it almost degenerates into at times when we carry along on the lines that you have suggested.

The CHAIRMAN: When the time comes, I have no doubt that Mr. McGeer will be given the opportunity to make a statement; and I hope that he will not be interrupted except in a dignified way.

Mr. SLAGHT: Why not permit me to call him as a witness?

The CHAIRMAN: I do not see any point in calling a member of this house or of the committee as a witness.

Mr. SLAGHT: Being a member of the house or of the committee does not disqualify him in any way.

The CHAIRMAN: Oh, no.

Mr. SLAGHT: I have referred to his outside qualifications.

The CHAIRMAN: We know Mr. McGeer's outside qualifications. We know that, and we know the qualifications of a good many members of this committee. They are equally qualified.

Mr. SLAGHT: If you do not mind, I should like to have the committee pass upon it.

The CHAIRMAN: Yes?

Mr. SLAGHT: And either permit or refuse to permit him to give testimony as a witness.

The CHAIRMAN: As a witness?

Mr. SLAGHT: Yes, sir.

Mr. FRASER (*Northumberland*): Mr. Chairman, after listening to the honourable gentleman in his request that Mr. McGeer be called as a witness and now carrying it so far as to say he wants the committee to pass on it—and obviously the only way the committee can pass on it is in the way of a vote—it seems to me that it is unnecessary in view of the position Mr. McGeer is now in. Mr. McGeer has all the privileges of a member of the committee. The committee will give him every possible opportunity to make a statement. I do not think, Mr. Chairman, that the committee should be asked to vote whether Mr. McGeer is to be called as a witness or not. I think, sir, that you placed your position before the committee in a very practical way. Every member of the committee has not only been anxious to hear Mr. McGeer but probably has derived very much information from what he said. Mr. McGeer can stand on his feet, the same as I am doing now, and make his statement in committee. But after all is said and done, should we carry a thing like that to the point where we vote to have Mr. McGeer as a witness or not? What are you going to gain by that?

Mr. SLAGHT: An important organ of the press has challenged, in effect—

The CHAIRMAN: Oh, well.

Mr. SLAGHT: An organ of the press differing from our views has challenged us to appear as witnesses before the committee. I had my day yesterday, and I think Mr. McGeer should have the opportunity of meeting that challenge and being accorded the right to have the testimony go into the record as was done in 1934.

Mr. FRASER (*Northumberland*): Mr. McGeer has the same right, Mr. Slaght, to do as you did yesterday. I do not think, with due respect to the press, that what is suggested is within their ambit. They have the right of suggestion, but certainly they have not the right in effect to enunciate the policy of this committee. Mr. McGeer has the same right as you have, Mr. Slaght. Where do we end if we start that? Mr. Jaques may want to be a witness.

Mr. McGEER: As a matter of fact, we called Social Credit as witnesses in 1939, as you remember.

Mr. FRASER (*Northumberland*): I know. But they were not members of the committee.

Mr. McGEER: What I would suggest is this. I believe that our views should not only be placed before the committee for the examination of committee

members, but that the bankers and those with whose views our views clash, should also have the right to cross-examine us. We have had the right to cross-examine the bankers.

The CHAIRMAN: Mr. McGeer, I doubt if we have ever given in this committee the right to people who are not members of the committee to cross-examine the members or to cross-examine witnesses.

Mr. McGEER: Not as a member of the committee.

The CHAIRMAN: No.

Mr. McGEER: But as a witness they can.

The CHAIRMAN: We cannot dissociate you from your position as a member of the committee and a member of the house. We are not going to put you out of the house, Mr. McGeer. We would all regret that. We do not want that. We want you to be a member of the committee.

Mr. McGEER: Of course, it is in the hands of the committee; but we want it to be known that we are perfectly willing to come before the bankers and give them this opportunity of cross-examining us.

The CHAIRMAN: We accept your statement, then.

Mr. CLEAVER: I would suggest that Mr. McGeer be given the floor to present his views; and that at the conclusion any member of the committee, as is our practice, should ask him any questions he wishes.

Mr. JAKES: Mr. Chairman, it was agreed that I should have a few minutes.

Mr. McGEER: Yes. All right. Then I will follow you.

Mr. JAKES: All right. I will not take more than a few minutes of the time of the committee, but I felt that I should make a short statement on this motion. Before I say anything I want to repeat what I have said before, that my interest in this inquiry and also the interest of those with whom I am associated, is entirely with the idea of preserving free enterprise and the private initiative; we are opposed to nationalization and to any further government entry into business. And it is because we are against that that we think it will be necessary to make changes not in the laws, which I do not think exist, but in the rules of economics, and particularly of our financial system.

With regard to this particular motion I am rather surprised that the opposition comes from those who are also opposed to the idea that the banks create the money they lend; because if the situation is as we are told it is by perhaps a majority of the members of the committee, that they only lend their deposits, then how can these people object to having the banks keep a 100 per cent reserve; for that is exactly what the banks claim exists at the present time. On the other hand, as I understand it, the banks are entitled by law to extend their credit up to twenty times their cash reserves, but experience has taught them that it is not safe to go beyond a ten to one ratio. I think, as far as we are concerned, if we support this motion, it is not with any idea of reducing the scope of the banks' operations, it is really to enlarge them and to make it safe for them to go as far as they like when it comes to financing the legitimate needs of the Canadian economy. I do not think it is yet realized, certainly I have not gained any impression from this committee that it is realized, how great the needs will be after this war is over. I do not think the members generally have realized the enormous strides forward which our production capacity has made because of the war. I suggest that the period between the last war and the present war proves that the existing economic, or I should say the existing financial, system has been unable to take care of conditions which existed, and I feel quite sure that it will be still less able to take care of the conditions which will arise as a consequence of this war; and I think the issue is becoming clearer every day that it is either totalitarianism—that is for the government to take

over all business and run all the business of the country—or else we have got to make it possible for private enterprise to continue and give security to the people. I believe that is the fundamental issue not only before Canada but before the whole world to-day; and I think that we are doing private enterprise, we are doing the banks if you like, a mighty poor service in trying to restrict and oppose the changes which I am convinced will be necessary. It seems to me that anybody who objects to this 100 per cent reserve is admitting the fact that the banks do lend not their deposits but credit which they create on the basis of their cash reserves. You cannot have it both ways.

Mr. KINLEY: Oh yes you can, it works well in the interest of both.

Mr. JAKES: I do not think it does. The conditions which prevail may work for the banks at the present time. I am glad it works for somebody. But I do not think anybody could say that it works generally in the interest of the country, certainly not considering the state of the country before the war. I do not think it does.

Objection has been taken, I think it was by the Minister of Finance or Dr. Clark, that this provision would limit the profits of the private banks.

Mr. MARIER: It would wipe them out.

Mr. JAKES: That is a question with respect to which I do not feel qualified to pass an opinion. I do not see why it should, and even if that were true I am quite sure that it would be possible so to arrange the matter that the profits would not be wiped out. I do not see why it necessarily follows. They certainly would gain. It seems to me they would gain by the extra safety and the extra security. And if that is true, of course, the basis of the opposition of this idea—it is based apparently on the erroneous idea, I believe, on the statement that the banks lend their depositors' savings. I suppose there is no use in trying to argue that point. I take the view that they do not, and I take it on the authority of the Governor of the Bank of Canada.

Mr. MACDONALD (*Brantford*): That was in 1939.

Mr. JAKES: In 1939; I asked him that question myself.

Mr. MACDONALD (*Brantford*): And he gave a slightly different opinion this year.

Mr. KINLEY: The funny thing to me is that everyone who comes before us finds you travelling along with him, and then you do not agree with his conclusions.

Mr. JAKES: It is a little difficult—I have the exact quotation here.

Mr. CLEAVER: If they do not lend or even invest the deposits, what do they do with them?

Mr. JAKES: Here it is: "Mr Towers—The banks of course cannot lend the money of their depositors"—

Mr. MACDONALD (*Brantford*): You may remember the fact that this year Mr. Towers qualified that statement.

Mr. McGEER: Oh, not very much.

Mr. MACDONALD (*Brantford*): Not very much? Oh well, the record speaks for itself.

Mr. JAKES: I will make a very simple suggestion there; supposing a number of us were to go into a bank this morning and were to deposit \$100 each; say ten of us were to go into a bank and deposit \$100, there would be a deposit of \$1,000 in that bank; and then somebody comes along later in the day to that bank and borrows \$1,000; and then just out of curiosity the ten of us who had put our deposits there of \$100 each go into the bank and say to the manager, is our money still here? Does he say, no it is not, I have just loaned a thousand dollars to Mr. So-and-So? He will say; yes, of course it is here, unless you have

chequed it out. Well, the man who borrows the money has his \$1,000, and collectively the ten of us have our \$1,000, and that makes \$2,000 there where only \$1,000 existed before. Is that not the creation of money?

Mr. McCANN: But there are tens of thousands of depositors; is that not true?

Mr. JAKES: Certainly, it is true of them all.

Mr. CLEAVER: Surely, Mr. Jakes, you conceive the fact that all of the depositors do not want to withdraw all of their deposits on the same day.

Mr. JAKES: Certainly, and it is on that basis that the system continues; for if they did, as Mr. Towers admitted in 1939, if they had withdrawn their deposits or wanted to withdraw their deposits all at one time it would break any banking system there is. If the people go into the banks and they want their money out of the banks they do not ask for cheques. They ask for cash on the barrel-head, and that is legal tender.

Mr. KINLEY: It reminds me of the old lady who did not have very much education. She used to buy things in town for her neighbours. She had to take a purse for each person's money and keep it in a separate place so she could keep count of it. She had a purse for every friend so she did not get confused in the handling of her money. It seems to me your suggestion is like that.

Mr. JAKES: I am not suggesting anything. I am stating some facts. I am not criticizing the practice at all because I know very well that we could not have carried on without it. This old idea of thinking, as many people would have us do now, that you can limit money to what they call hard money, precious metals, has been the cause of more misery than all other things put together. When we read in our history books that this king and that king debased the coinage they are made to look to us as though they were just common forgers. Instead what they were doing, and what they recognized as their most sacred duty, was to keep the supply of money in balance with the supply of goods; in other words, to keep prices level. That was the whole purpose of what we read in the history books as to debasing coinage.

Mr. KINLEY: I think they dethroned the kings who chiselled the coins and Queen Elizabeth came along—

Mr. JAKES: You want to read a little different history than what we were taught in the schools. It is quite evident you could not go and manufacture silver, you could not manufacture gold, and unless you could find new gold mines or new silver mines, then the world was limited for money to the amount of precious metal there was in existence.

Mr. KINLEY: You would not believe in cutting a yard measure down to thirty inches if you had a yard measure.

Mr. JAKES: No, I would not. You, of course, put the cart before the horse.

Mr. SLAGHT: You would not believe in making it 360 inches either.

Mr. JAKES: If you bring up this question I will give you the answer of Mr. Winston Churchill. I think I have got it here.

The CHAIRMAN: I would suggest, gentlemen, that as far as possible we cease from interruption.

Mr. JAKES: I am merely trying to point out that money has got to be expended if industry is going to expand. I am not criticizing this method which has been adopted universally of the banks creating credit and loaning that. I say that is a provision which has made progress possible. I take it that the idea behind the moving of this motion is to safeguard that process. That is the way I understand it.

Mr. MARIER: It would restrict them.

Mr. JAKUES: No, I think it would have the opposite effect. At the present time when the credit of the banks exceeds the 10 or 11 to 1 ratio we are told that the credit structure gets top heavy and they have to reduce their sails. They have to cut down and reduce their loans and credits. That is what we are always told. I do not say that any of the bankers here have told me that, but that is what we have always been told. Now, why not try and arrange matters so that they do not have to reduce their loans, so that in so far as legitimate business is concerned they can meet every legitimate demand for credit without any danger to themselves?

I am not here as an expert, of course. I am merely putting forward general views. Where there is a will there is a way, and if we want to change a thing, we can do it. I believe not only that it can be changed but that it should be changed for the benefit of everybody because the alternative is what? The alternative is not what so many members seem to think, a nice comfortable return to the pre-war days, and even to pre-1914 days. That is not the alternative. It is not even the banking institutions that are at stake. In my opinion, it is parliament itself that is at stake, for one thing is certain, that if free enterprise and democracy as we have known them cannot supply the security which the people mean to have at all costs, then they will scrap everything in order to get it, and it will mean what has happened in every other country, government control, government business, in other words, totalitarian government.

Mr. GRAHAM: Nationalization.

Mr. JAKUES: That is the alternative. Surely the recent elections ought to make that clear enough. We Social Crediters draw a distinction between private finance and public finance. I am not sure, but I imagine Mr. Slaght has the same idea, that the banks should take care of private enterprise, private business, but that the government should finance themselves. That is more or less the idea behind this motion. We do not want to see the government going into business, and we do not want to see the banks financing the government at all. They should be kept separate. I am not saying for a moment that this motion is the solution of our trouble but I believe it is a move in the right direction.

Then, Mr. Noseworthy quoted some figures. I did not hear them, but the impression I got was—and it certainly was news to me—that it has been admitted by private enterprise that they will only need one hundred and some odd million dollars after the war.

Mr. NOSEWORTHY: That was the result of a partial survey. I did not imply that was all private enterprise would need. That was the findings of a survey made of 2,400 of the largest industrial concerns in the country. That was their contemplated investment in capital goods.

Mr. McGEER: As I read the article it was a warning that private enterprise was not going to be able to take up the slack that would be developed.

Mr. KINLEY: That was surplus investment in addition to what they have now. They have a big investment now.

Mr. McGEER: If you read the article in that paper you will see it is a warning the same as Mr. Towers gave us.

Mr. JAKUES: I do not want to take up any more time of the committee. I think I have made my stand clear. I am not here as an opponent of the banks but just the opposite. I am not here as an opponent of private enterprise and the profit system. I am here as a defender of those things. I feel very strongly that those who oppose monetary reform are the very ones who will drive the country to accept socialism and totalitarianism.

The CHAIRMAN: Mr. McGeer.

Mr. McGEER: Mr. Chairman, in speaking to section 59 and to the amendments proposed by Mr. Slaght, I had in mind to offer an amendment to section 75 which reads as follows:—

It shall be unlawful for any chartered bank to create and issue bank deposit credit in place of, or as a substitute for, the lawful currency and coinage of the Dominion of Canada unless the amount so created and issued has been authorized by a Board consisting of the Governor of the Bank of Canada, the Minister of Finance and the Prime Minister.

I think I may offer that and discuss it now, and I will not discuss it on section 75.

Mr. MACDONALD (*Brantford*): Is that something new?

Mr. McGEER: It is this—

Mr. GRAHAM: Is that an amendment to section 69?

Mr. McGEER: No, to section 75. If you will recall, section 75 gives the general powers to the bank and the only place I can find any authority in the Bank Act for the issue of bank deposit credits on cash reserves is in section 75, and it is only to be found in an interpretation of the power to carry on banking business. Now, as a lawyer, I have always thought that the power to create and issue bank deposit credit as a substitute for money was illegal; I do not think the banking practice or banking business includes the power to create money. My reason for believing that that is the correct legal interpretation is that under our constitution the national government alone has the power to define and create and issue money. We have our national currency provided for in our Currency Act which authorizes the government of the dominion to define the quantity of metal in a cent, in a nickle, in a silver coin and, where in circulation, in gold coin. That prerogative right of national government is preserved by the provisions in the Criminal Code against counterfeiting, and the same thing applied to the issue of bank notes in pre-Bank of Canada days, and now to the issue of Bank of Canada notes. The only exception to that was the specific authorization in the Bank Act permitting the chartered banks to issue chartered bank notes and to use them as currency for whomever will accept them, and made them legal tender in the liquidation of an obligation to the chartered bank issuing them. So that we had always a parliamentary recognition of the prerogative right of national government to reserve to itself and to itself alone the power to define and to create and to issue the medium of exchange of the people and the government.

Under a practice now so long adopted that I am rather inclined to think our courts would accept it as an established custom of the banking trade, we find ourselves in the position that the issuers of the medium of exchange upon which both government and people must rely consist not only of the Bank of Canada but of the chartered banks—nine of them who have nine powers to issue their own money in the form of debts called bank deposits.

Yesterday in the course of the discussion it was asked by one of the members of the committee if the bankers have that power, then why don't they use it to make excessive profits? Well, it is a power that has limitations, and one of the things that every banker with that power must keep in mind is that he cannot get out of step with the other banks; credits must be moved out and withdrawn by the bankers operating in the multi-bank system, and if one banker gets out of line with the others in one credit obligation the result is that he is called upon to meet, through the clearing house, his cheque obligations in Bank of Canada cash; and in every instance where a chartered bank has gone into bankruptcy in Canada it has first been because it was unable to meet its legal tender dominion notes—and now Bank of Canada cash—to the other banks. That is not something that is free from pretty definite decision and acknowledged fact, but it was very fully discussed in the Macmillan committee report which Sir

Josiah Stamp and many others have recognized as probably the most up to date and comprehensive study in monetary economy yet published. We thought enough of the Macmillan committee report in 1932 to appoint the head of that Committee and the author of that report to come to Canada and produce for us the Macmillan report of Canada.

Of all the books available as studies of practical monetary economy and applied science I believe that these two books, as far as our British system is concerned, are by far the most complete and comprehensive. The Macmillan report, from which I am going to quote now, was filed with the British government in 1931, shortly before England was forced off the gold standard. Had the situation developed where England was forced to meet what was looked upon as a very dangerous and critical situation at the time I think the Macmillan report would have been more definite in some of its conclusions; but I do think you will find that in studying this report you will see the steps that have been taken by Britain, by Canada, and by the other nations of the world under which they have found the means of financing the tremendous war effort that has been produced to defeat the aggression of Germany, Japan and Italy.

In describing the creation of bank deposits at page 34 in section 74 the report says this:—

It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit in its books, which is the equivalent of a deposit. A simple illustration, in which it will be convenient to assume that all banking is concentrated in one bank, will make this clear. Let us suppose that a customer has paid into the bank £1,000 in cash and that it is judged from experience that only the equivalent of 10 per cent of the bank deposit need be held actually in cash to meet the demands of customers; then the £1,000 cash received will obviously support deposits amounting to £10,000. Suppose that the bank then grants a loan of £900; it will open a credit of £900 for its customer, and when the customer draws a cheque for £900 upon the credit so opened that cheque will, on our hypothesis, be paid into the account of another of the bank's customers.

The bank now holds both the original deposit of £1,000 and the £900 paid in by the second customer. Deposits have thus increased to £1,900 and the bank holds against its liability to pay out this sum (a) the original £1,000 of cash deposited and (b) the obligation of a customer to repay the loan of £900. The same result follows if the bank, instead of lending £900 to a customer, purchases an investment of that amount. The cheque which it draws upon itself in payment for the investment is paid into the seller's bank account and creates a deposit of that amount in his name. The bank, in this latter case, holds against its total liability for £1,900 (a) the original £1,000 of cash and (b) the investment which it has purchased. The bank can carry on the process of lending, or purchasing investments, until such time as the credits created, or investments purchased, represent nine times the amount of the original deposit of £1,000 in cash.

May I say to the members of the committee that I think that was the first time in the history of British banking that that definite statement of fact with regard to the creation of bank deposits as a substitute for money was ever made by an authoritative body reporting under the responsibility of parliamentary appointment.

Section 75 goes on to describe the difficulties which the banks were up against. It reads:—

75. The process is much the same when we remove the assumption that there is only one bank. The credit granted by one bank may reach the accounts of customers in another bank. There is thus established a claim by the second bank upon the first for cash, and the ability of the second bank to grant loans is improved in so far as that of the first bank is reduced. Over the banking system as a whole therefore, loans and investments made by the banks increase their deposits. There is, however, a limitation on this process. A bank which is actively creating deposits in this way will naturally find that a considerable part of the cheques drawn against them will be in favour of other banks. It will thus lose part of its cash reserve to those banks and must proceed to limit its loan operations if its normal cash ratio is to be maintained. In practice, therefore, no one bank can afford to pursue a policy of creating deposits by making loans or investments which is much out of line with the policies of other banks.

They must march together in expanding loans. They must march together when loans are withdrawn. It is both in that power to create that kind of money and the necessity of working in co-operation, with the restrictions upon the banking system that are imposed, that prevents this banking system from maintaining an effective control over the supply of the medium of exchange needs of a people in their varying degree. I think that we are imposing an utterly impossible task upon our chartered banks by calling upon them to create a medium of exchange and at the same time be trustees, the custodians of their depositors. Those two obligations are in conflict, and one or the other must suffer; because a banker who is a custodian for a depositor cannot afford to run the risks that must be run if an expanding economy is to be developed in our present society. Let me make that clear. Let me say to the members of this committee that I think we should approach this decennial revision of the Bank Act from two points of view. First, we are the first committee of parliament to sit reviewing the monetary structure of to-day since the Bank of Canada was incorporated and changed from a private banking institution into a publicly-owned national public utility. No other parliamentary committee has ever had the privilege of reviewing the operation of a monetary system in Canada—and we are one of the first nations to establish that system—which treats our national central bank, as Mr. Ralston described it, as the most important public utility in our whole economy.

The other point of view is this. What are we going to finance in the post-war period? What are the obligations that we in Canada will face, not only through our federal government but through our provincial governments and through our municipal and local governments and through our corporations? I commend the Governor of the Bank of Canada both for the statements that he made in his report and the statements he made to this committee, that the task is unknown and that it is going to be, both in size and in character, unprecedented.

Now may I emphasize that by just drawing to the attention of the members of the committee one bit of information that came to me from the State of New York. I put this before you because I think it is a fairly clear indication of how wide the obligations of finance may be in the post-war period. This report was made to Governor Dewey of the State of New York by the New York Unemployment Insurance State Advisory Council. They were making a survey as to what the employment in relation to insurance in that state would be in the post-war period. I quote from the *New York Times* of March 6:—

Those taking the most optimistic view of the post-war situation believed that employment would be maintained at 10 to 20 per cent above the 1940 level because of post-war planning and the stored-up demand for goods. This would mean a drop of 500,000 in average monthly employment below the wartime high. In this view, 1,500,000 persons would be entitled to \$325,000,000 from the fund in the first post-war year,—

I may say this is not in the United States. It is in the State of New York alone. Continuing:—

. . . 1,300,000 persons to \$270,000,000 in the second year and 900,000 persons to \$165,000,000 in the third year, when an upturn was expected.

The most pessimistic view was that post-war employment would drop 10 per cent below the 1940 level. On this basis 2,500,000 persons would be entitled to \$700,000,000 in the first year, 1,500,000 persons to \$400,000,000 in the second year and 1,200,000 persons to \$240,000,000 in the third year.

According to the middle view outlined in the report, 2,000,000 persons would be entitled to \$575,000,000 in the first post-war year, 1,500,000 persons to \$400,000,000 in the second and 1,000,000 to \$200,000,000 in the third, with fund receipts exceeding expenditures in the fourth.

Now, there is a survey made in a state most similar to our own eastern Canada from the industrial point of view and from the point of view of the war program, and they get a margin which is tremendously wide in their conception of what might happen. Now, no matter what happens in the post-war period I submit, Mr. Chairman, that we in Canada can never afford to allow the spectre of unemployment to march across this dominion and we must always be prepared to finance what we reasonably anticipate to be the necessity, but we must be prepared to finance the very limit of any unemployment that may come. Now, I don't know—other men are able to analyse and observe these things just as well as I am—but when I hear men talking about full employment, I wonder if they appreciate what full employment would mean in Canada with our equipment and our productive capacity. I venture to say there are very few industries producing the necessities of life in Canada which, if they went all out on a full-employment basis, would not in six months' time produce more than a year's requirements. It is so in our shoe industry, it is so in our knitting industry. It is so in practically every department of our economy.

Mr. MACDONALD (*Brantford*): Does that apply all over the world or are you speaking just of Canada?

Mr. McGEER: As it applies to Canada. I am coming to foreign trade later on, but I do want to deal with our domestic situation. I think we recognize that in our economy that we have achieved what many other nations are hoping to achieve, and I think it has been brought out to a remarkable degree that upon this continent we, Canada and United States, have developed an industrial capacity away ahead of any other people—and it is exemplified in the productive capacity for war purposes that we have achieved.

Then there is this question of reconstruction—I don't think that is the term to use, as I see it we have had nothing smashed down here. When we talk about reconstruction in Canada we are using a term which is a misnomer. We have nothing to reconstruct in Canada. We have constructed far beyond anything which we have ever had before the war.

Mr. FRASER (*Northumberland*): It is a question re-aligning, perhaps that is it.

Mr. McGEER: It is not reconstruction. What I think is that we should talk in terms not of reconstruction or re-alignment, but in terms of an expansion—

any program that will put our people to work in all fields of human life, that is, the social, the cultural and the economic; where we can build a Canada worthy of the ambitions of the Canadian people for national unity and individual life.

Mr. FRASER (*Northumberland*): That is right.

Mr. McGEER: Yes. We do need to go forward; not because we have something to reconstruct, but simply because we have to expand upon the sound foundations that were developed, and to use that power which we now know we have developed to the highest standard of any country in the world. I have no quarrel with that. Let me say this; I believe to achieve that end, we have got to move on two distinct fronts. Our own normal economy will take care of this expansion pick-up that we expect in connection with private industry. We can expect private industry to do something; but I think with a great many men with whom I have talked to-day that we are going to find it extremely difficult to get the accumulated savings that are invested in government bonds into private industry. There is no question about that. Any banker in this room will tell you, as many of them have told me, that they have plenty of money in the banks in the possession of people, but that gives us no right to conclude that in our present position that money is going to be converted into private enterprise and activity. There are many reasons for that; one is the threat of socialism if you like; one is the threat of disturbed conditions; the other is, as Mr. Graham Towers told us, the burdens of taxation. So that we cannot afford to count in the post-war period too greatly upon private enterprise to take up the slack and provide the new homes, the automobiles and the thousand and one things which, notwithstanding our high standard of living in the system of life that we are enjoying to-day, are not being enjoyed at the moment. How many of our people can we engage in the supplying first of our domestic requirements and second of all that we can export? Again, many think that the expansion of export trade is something that is going to come about automatically. I venture to say that the bulk of your export trade during the post-war years, for possibly two or three or five years will depend upon a policy to carry on of a lend-lease program which you have got to finance yourself.

And now you will probably evolve, you must evolve in your foreign trade an organization that will take what Canadians can produce in surpluses abroad and bring back or use goods and services of other people; and the foreign trade of tomorrow will depend first upon the ability of Canada to organize itself as a producing nation, and to organize on a basis of producing what it can exchange—

Mr. FRASER (*Northumberland*): On a competitive basis.

Mr. McGEER: —on a competitive basis. But I think under the same system of agreement which we were developing before the war where we agreed with nation after nation to take and exchange from them what they took from us, a similar amount of goods and services, or to accumulate in those other nations credits we can do much; but that must be organized, our Department of Trade and Commerce must do just exactly in this modern world of ours what a modern business man does who serves any community. It has got to organize the things that we can do in Canada and that can contribute to our own standard of living and our own well being by creating things other nations want.

Mr. MACDONALD (*Brantford*): Did I understand you to say that first there would be a lend-lease period and then there would be organized exchange?

Mr. McGEER: And then organized exchange. I agreed with that. I believe that is the logical thing. I do not see how a great many of these nations, like China or all the countries of Europe, or even England; I do not see how we can look forward to payment from them. People cite the debt policy of England as being a fairly good guide. It is indicated in the material I have before me here that England has twelve thousand million dollars of global liabilities which she has got to serve out of her own exports; and Canada has not got any of that, I suppose, except probably some \$700,000,000.

Mr. FRASER (*Northumberland*): And that will lead to bulk deals.

Mr. McGEER: Bulk deals, yes; I mean to say that has been discussed by a good many men who have thought it out. What some of them suggest is to go further and accumulate credits and then after a period of time if you cannot make use of them just wipe out those credits, have them liquidated. The underlying principle of thinkers in foreign trade is inspired by the principle that instead of international trade being tantamount to incipient war, a thing which developed eventually into a real war, that international trade will be a basis of co-operation upon which peace among the nations of the world can be built.

Mr. CLEAVER: Mutual benefit.

Mr. McGEER: Mutual benefit. I mean to say the thing that helps everybody. Unfortunately in the past, particularly in the pre-war period, we went doggedly on with a foreign trade war with other nations in the world, trying to get a favourable balance at the expense of somebody else, using depreciated currencies, embargos, bonuses, and a thousand and one things of that kind, all designed to get favorable balances and all intended to be created for the purpose of liquidating debts at the expense of somebody else.

Mr. FRASER (*Northumberland*): And hit and miss as well.

Mr. McGEER: Hit and miss as well, no organization. We had no organization in Canada. Men were trading in Australia and all over the world. There was no opportunity for them to discuss what they were doing.

Mr. MACDONALD (*Brantford*): Do you suggest that in the future they will not exchange for profit? What would be the incentive?

Mr. McGEER: No, I simply say you make the exchange for profit more secure by organizing it as a sound merchant organizes the trade in his own community.

Mr. NOSEWORTHY: In other words, you are arguing for a planned economy.

Mr. McGEER: I have always argued for a planned economy. I think it is just as stupid to think in this modern world we can get along without guides, controls and regulations in the rapidly moving channels of trade and commerce and monetary investment as it would be to assume you could let traffic go free on the corner of Broadway and Fifth avenue. We must have some measure of control and assistance. The other field is this; just how much employment we can depend upon and to what extent we must finance it without returns from abroad is a matter that can only be disclosed in the future. It is just as wide open as the survey of unemployment made by Governor Dewey was in the State of New York, but one thing we can be certain of. We must eliminate from employment in the production of consumer goods and services a substantial number of people and we must give them employment elsewhere. I suggest that brings us into two responsibilities of federal government. The federal government must assume, be responsible for and take over the obligation of financing public services or social services of this nation. They must be infinitely broader than any program now proposed by parliament. Certainly family allowances, as the Beveridge report indicates, is one of the cornerstones. The other is an adequate non-contributory old age pension. If the nation will take care out of its abundance of its children and its aged it has fixed itself to a sound basis of practical political economy.

Then, take your Unemployment Insurance Act which is a splendid piece of legislation but does not go far enough. A great many men paying unemployment insurance moneys have no compensation because they were always employed. If that were extended so that at a given age these men paying into the fund could retire—if they are \$2 a day men on a \$2 a day basis and if they are \$10 a day men on \$10 a day basis—and live in comfort and no longer be a competitive factor in the production of consumer goods it would be helpful.

Mr. MACDONALD (*Brantford*): Would that be apart from the old age pension?

Mr. McGEER: Yes, that is what I would say is the proper way to work out your contributory old age pension. Then, your other social services are well known, but the greatest social service that needs financing, Mr. Minister, is the education of the youth of Canada. If there is one part of our economy that has suffered disastrously from the present monetary system it is that department which is so valuable, namely, that of education. If you will go out through western Canada or down through your own lovely provinces in the maritimes and examine the conditions under which the teachers of this land are compelled to operate and the salaries that are paid to them and the general conditions of education I know you cannot be proud of it.

Let me just refer to a statement of the importance of that which I came across many years ago in my reading, as to the value of education. If we are ever going to find a substitute for the discipline of poverty, if we are ever going to find a way in an age of abundance to prevent a clash between constitutional government and mob rule it will be found as a product of our educational system. Let me give you this.

The final word in the solution of the problems of industry lies with an educated and intelligent public opinion. The fundamental assumption of popular government is the control of political affairs by an opinion which is truly public. Enlightenment of opinion is a matter of education. Only through the agencies of education and public opinion may we hope for a general acceptance of the conception of industry as being in the nature of public service, and for the change of attitude in the relations of its parties consequent upon a belief in common as contrasted with opposed interests. Only through education and opinion supplementing all that invention and government may be able to do, can general application of principles underlying peace, work and health be assured.

That is a statement made by our own Prime Minister, the Right Honourable W. L. Mackenzie King, in his book "Industry and Humanity" published in 1918.

Mr. Chairman, let me draw this to the attention of the committee. What plans have we now for the expansion of our educational system or what estimate has been made of the increased costs of education?

Mr. NOSEWORTHY: An estimate has been made by a survey committee of the Canada Newfoundland Educational Association calling for \$140,000,000 of new investment and expenditure.

The CHAIRMAN: A little louder.

Mr. McGEER: I have read that report and my own humble opinion is it is inadequate and hopelessly low. It does not envisage anything like raising the standard of living of the school teachers or of the whole organization or the expansion of the services. One of the things I had in mind which we should do, and do without delay, is that we should take the National Research Council with all the splendid work it is doing and immediately coordinate it into a university of applied science, but I venture to say none of these things can be measured until we know that we can finance them up to the standards that will satisfy the ambitions of the Canadian people. There is a field there, Mr. Chairman, by which through social services we can put into circulation the amount of money that is necessary to consume the goods that must be consumed if the number of people now engaged in producing consumer goods and services are going to continue to be employed. That is roughly 3,200,000.

Mr. FRASER (*Northumberland*): And the word "education" must be very inclusive.

Mr. McGEER: Of course it must be.

Mr. NOSEWORTHY: Just one moment, Mr. McGeer; the report I referred to calls for the annual expenditure of \$40,000,000 a year by way of increase in teachers' salaries.

Mr. McGEER: An increase in the number of teachers? Well, of course, my own idea of that kind of thing is outlined in this: when I was mayor of Vancouver I proposed to develop education as the base of our civic life. I wanted in each school, particularly in the suburbs of the poor people, a school centre with a stadium, a gymnasium, a playing field, a skating rink, a swimming pool, a theatre, accommodation for literature, art and music; and to make that school a centre—

Mr. FRASER (*Northumberland*): And a workshop?

Mr. McGEER: The technical schools are already a part of our school system—to make that school centre a centre for the parents as well as the children. To do that in Vancouver would cost the city based on the lowest figure we could get, around \$140,000 a unit, but to do the thing right those units will cost somewhere in the neighbourhood of half a million dollars apiece. But imagine the difference that will come in the life of the community equipped in that way. The most appalling thing that the vast majority of our workers are confronted with, Mr. Minister, is not the eight-hour day, but some method of being engaged profitably, culturally or in some other way, during the other sixteen hours. The inertia of idleness, if it is not guarded against by the community at large, is one of the most dangerous conditions against which democracy must work if it is going to avoid deterioration.

Under social services employment must be given and moneys must be distributed from the state to create consumers' buying power. Am I to hear again from someone that you cannot get something for nothing? To issue the medium of exchange as a fulfilment of a constitutional power and a constitutional responsibility is not getting something for nothing.

Mr. FRASER (*Northumberland*): If you utilize labour and material.

Mr. McGEER: Why, of course. This idea that the state must only issue money as a banker issues it to have it returned freighted with interest is one of the greatest fallacies that ever crept into the science of political economy. Governments do not declare dividends in terms of money; governments declare dividends in terms of national integrity, in terms of standards of living for their people, in terms of the power of government to do for the people that which they cannot do for themselves or to do for the people that which the government can do better. A government's responsibility to its people is that of a servant, exercising all its constitutional powers to aid and assist the people to live together better and to aid the people to employ their intelligence, genius if you will, and their capacity to produce together the things they can use individually; and to produce the things that are required to sustain life, to sustain health and to sustain a stability, a reasonably progressive rate in the betterment of every individual in the community. And the power to do that on the part of a national government is in the power to create and issue the medium of exchange without which the people cannot divide their labour and consuming power.

Do you think that we could have marched on in this war effort if our government had not stepped into the breach and provided annually billions and billions of dollars with which the people engaged in the war industry produced the materials of the mines, the forests and the land and took them to the factories? That medium of exchange had to come into being, and it had to be circulated by the government in the way it was circulated or our people could not have distributed a division of their labour to the production of the things we have got. Are we going to abandon the knowledge that we have gleaned from that great experience when we come to face the challenge of conquering poverty for the people of Canada? And the job we are faced with is that

if we in parliament cannot meet that end, then others are going to take our place. They probably will not do it as well, because I believe we can do these things with freedom, while others believe that freedom must be destroyed to achieve the material ends. My experience in reading what little history I have read is that wherever a people have given away their freedom to secure a material advantage, they have invariably lost both. But we in this committee cannot overlook the fact that politically in Canada the people have struck their tents; they have gotten into the caravan and they are marching everywhere. In British Columbia and Alberta, the battle of monetary reform and socialism goes on to-day. It goes on in Saskatchewan, Ontario and Quebec and the maritimes, always more stable than the rest of us, but I understand that even down there there are rumblings that have gone beyond the coal mines.

Mr. CLEAVER: Would an interruption disturb you now?

Mr. McGEER: Yes, it would if I am to finish my point. However, let me say to you that the job of financing that program of social service is a responsibility of federal power.

Now, let me come to another point. People ask me, as I travel across this country from coast to coast, will there be work for the men and women when the war industries close down and when those troops that are going to be demobilized are sent back to civilian life? I am not so sure there will be. I am confident that there should be; and I am confident that there can be. We in Canada are particularly blessed I believe; I believe we are the richest people in the world; I do not think there are another twelve million people that have got a land of resources and opportunities that can come within miles of us. Now what are those opportunities? We happen to live alongside of one hundred and thirty millions of the richest, most active, and willing spenders in the whole world. Properly developed Canada can take out of America in tourist trade alone annually a sufficient amount of money to pay on every dollar of public works investment intelligently expended to develop Canada's natural resources as a tourist centre.

Mr. MACDONALD (*Brantford*): Mr. Chairman, it is 1 o'clock.

The CHAIRMAN: We will adjourn until 4 o'clock this afternoon.

The Committee adjourned to meet at 4 o'clock.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: You have the floor, Mr. McGeer.

Mr. McGEER: Mr. Chairman, if I might just revert to the social security program that I was outlining, and what would be necessary, I should like to put on record a statement from "Social Security and Reconstruction in Canada" by Harry M. Cassidy, Ph.D., a brilliant British Columbian, a graduate of the University of British Columbia and now professor of social welfare in the University of California. He has had a very wide experience in social welfare problems in the Dominion of Canada and in British Columbia. At page 136 of that book which was published last year he says this:—

J. M. Keynes, the noted British economist,—He is now Lord Keynes.—has said that as a result of the war "we shall have learnt some things about the conduct of currency and foreign trade, about central

controls, and about the capacity of the country to produce, which will prevent us from ever relapsing into our pre-war economic morass. There is no reason why most people should not look forward to higher standards of life after the war than they have ever enjoyed yet."

The economic policies necessary to hold up employment and agricultural prosperity will be various, probably including collaboration with other nations to build up world trade; control of credit; taxation that obtains sufficient revenues for public purposes without penalizing business enterprise; control of monopolies and monopolistic business practices; large-scale public investment in housing, public utilities, conservation of national resources, and community facilities; and the stimulation of private investment. Such governmental policies will be necessary whether Canada continues to rely mainly on a free-enterprise economy or turns progressively to socialism. A social security plan itself will help towards the objective of full employment. Sir William Beveridge points to this as one of the incidental advantages of his plan for Britain. "Payment of unemployment benefit," he says, "will maintain the purchasing power of work people, if trade depression begins, and will thus mitigate the severity of the depression." A committee of sixty-eight American experts on social security, mainly economists, has stated recently that "the most direct means to counteract deflation are sound and feasible measures which seek to underpin mass purchasing power at healthy levels." There is a great untapped home market for foodstuffs in every country which a social security plan will open up. This new home market may go some distance to compensate Canadian farmers for difficulties after the war in selling abroad.

But as we have seen in earlier chapters, the problems that call for special measures of social security are legion even if there is full employment. Canadians would be foolishly optimistic if they thought that the wisest economic planning and control would abolish entirely unemployment and agricultural distress. A social security program, therefore, is an indispensable complement to economic planning for prosperity.

In his estimate,—and he reviews a very broad general program of social services—he fixes the minimum figure for an adequate social service program in Canada at a billion dollars a year. No one can tell what the requirement is going to be until the pattern of the plan is defined and the extent to which social security is going to be relied upon as one of the balancing factors in our national economy. I think that we have come to the time when we will probably have to go much further than the average person would at the moment consider adequate. I think that if we were going to employ social security as a balancing factor in our national economy, which aims at a rising standard of living for all the people, then we will probably have to change our attitude on what is adequate. I take as one illustration the old age pensioners of Canada. Can any man in Canada assume for one moment that out of our Canadian abundance we cannot, as a people, provide our old age pensioners with a good home, all the necessities of life that are required and a substantial portion of the comforts and conveniences?

Mr. FRASER (*Northumberland*): If we work for them.

Mr. McGEER: If we work, and it is only through work. I quite agree with that. But if an old age pensioner can buy a radio, then somebody must work to produce the radio.

Mr. FRASER (*Northumberland*): But I am referring to the inclination to work.

Mr. McGEER: Quite true. I quite agree with that. But I do not think there is any lack of inclination on the part of our people to work, or any lack of inclination on the part of the overwhelming majority of our people to see that our old age pensioners are properly taken care of. I do not think there is any question about our having the means or having the willingness. But you must give the old age pensioner the buying power before either the use of the means or the use of the willingness to work for them can be put into action.

Mr. FRASER (*Northumberland*): With the education of work and thrift.

Mr. McGEER: I agree. We have to-day somewhere in the vicinity of 180,000 people in Canada who are 70 years of age or older, and the maximum provided for by the government is \$25 a month. Some other provinces have added some to that and got it up to as high as \$30 a month; but when you take the average amount paid, it is away below the maximum allowance of \$25 a month, and it is surrounded by circumstances —

Mr. FRASER (*Northumberland*): Conditions.

Mr. McGEER: —and conditions, restrictions and limitations. For instance, I had an old age pensioner come to me who was not getting a dime from some property investments that he had. They were not paying enough to pay the taxes, and yet under the provisions of the Act and the regulations he was assumed to be the recipient of 5 per cent of the assessed value when, as a matter of fact, the properties were a liability to him. That was all done for the purpose of saving money; all done for the purpose of balancing the budget; all done because we assumed that the burden of taxes was too great and our power to create and circulate the medium of exchange was not such that we could provide for our old age pensioners. That attitude must change. I think we must look differently upon our old age pensioners, our people who are engaged in social services, those who will be employed as teachers, instructors and leaders in the thousand and one fields of that activity, and they must be put up to a place where their earnings help to make them economic consumers.

Mr. FRASER (*Northumberland*): And assets.

Mr. McGEER: And assets; because they put the farmer in Canada, the factory person and those who produce the things that they are not producing, those people who need consumers to keep their payrolls moving, in a position to continue in business. I say to this committee and I say, Mr. Chairman, with due reserve, that we are going to have a problem to keep full employment of the 3,200,000 people who are now engaged in other than the fighting services and war industries after this war is over. Without a social service plan of the kind that I speak of, it would be utterly impossible to talk of full employment and the maintenance of anything like the national income that will be necessary to carry the present burden of debt.

Mr. FRASER (*Northumberland*): If by chance we do not break down their inclination to work.

Mr. McGEER: I agree in every study of this phase of political economy, one must assume that in an age of abundance some substitute for the discipline of poverty must be found.

Mr. JAQUES: What is the matter with a little leisure?

Mr. FRASER (*Northumberland*): Education.

Mr. McGEER: I say that is your chief thing.

Mr. FRASER (*Northumberland*): Proper education to thrift and industry.

Mr. McGEER: I have heard that argument, and the first man I ever read who ever changed the thing was Winston Churchill back in the days of 1906 to 1909 when all of the things we are discussing to-day were current in the political life of England. He pointed out in answer to those who said that to

help the old-age pensioner will destroy the thrift of the people—and we had the same thing come up in our Senate when the 1926 bill was vetoed there when the first argument was that it would cost too much money, secondly that it would destroy the thrift of the people and wreck their character and thirdly that it was a provincial, not a national measure—

Mr. FRASER (*Northumberland*): I was not applying it that way.

Mr. McGEER: I quite agree with you that the incentive to free enterprise must remain. If we ever destroyed that our whole economy, of course, would collapse, but do you mean to tell me you ever hurt people's incentive by making the job they are doing worth while doing and giving them fair, proper and adequate compensation for it? However, we are dealing with the problem of financing full employment. I am placing before the committee some of the things that our monetary system and our banking institutions must be prepared to finance if we are not going to slump back into the economic morass we were in before this war.

Mr. FRASER (*Northumberland*): On your recommendations and submissions in 1934 I know my hon. friend will admit we have made a lot of progress.

Mr. McGEER: I am coming to that a little later on.

Mr. FRASER (*Northumberland*): I am sorry.

Mr. McGEER: Mr. Chairman, that program of social services, whether it be 1,000 million dollars or 1,500 million dollars or 500 million dollars, and what portion of it will have to be found with national contributions and what part can be developed, leaves us with the flat proposition that we have to have the financial machinery adequate to take care of it, whatever it is. Therefore, the machinery must be strong enough to carry the maximum possible load. Employment at home, employment in the production of foreign trade exports and the distribution and so on, and in social services will still leave a gap, and probably the most difficult gap of all. That is the gap of immediate employment for wage earners who are not going to go into consumer industries, foreign trade or social services. I submit there is a difficulty there which is enhanced by the type of people who are going to be demobilized from the armed services and from war industries. You can never expect those men and women to return to an economy such as we enjoyed in Canada in pre-war days. It is not good enough, and it will not be good enough for them. These men who are coming back from the army, from the air force, from the navy, and also the women, and those who are coming out of your modern war industries, have a right to expect that we at home will have prepared for them an economy on an expanding basis.

Mr. FRASER (*Northumberland*): But they must do their part.

Mr. McGEER: They have done their part and they will do their part if they are given an opportunity, and they will be ready, I think, to deal with those who are not prepared to do their part at home as well.

Mr. FRASER (*Northumberland*): I agree with that, but you will agree with me.

Mr. McGEER: They have been tried in the fires and they have not been found wanting.

Mr. FRASER (*Northumberland*): But you will agree there must be absolute teamwork.

Mr. McGEER: Whoever suggested that would not be necessary? Of course, there must be teamwork of a different kind than this. Now, Mr. Chairman, what are our opportunities in Canada? I mention briefly to-day our tourist trade. I have travelled this country from Cape Breton to Vancouver Island. I know of no land that has so much to offer to the greatest tourist trade that any country can enjoy and has done so little to make it so. We have not got a transcontinental highway. In Cape Breton the Cabot trail is one of the

most magnificent highways in the world. There is a causeway to be built across the gut of Canso. There is a tunnel to be built to Prince Edward Island. There is an ice block to be built across the Straits of Belle Isle which might change and improve the whole climate of the maritime provinces. There is in the province of Quebec in Gaspé, just as there is in Cape Breton, an area whose magnificence is not surpassed by the magnificence of the Rocky Mountains. There is along the St. Lawrence river, on both shores, and particularly along the north shore east of Quebec and up through the St. John lakes, a virgin paradise undeveloped. Here in our own Laurentian hills in this part there is hardly a highway that can be measured above a goat trail.

Take our own capital city. Here is a capital within an easy holiday drive of over 60,000,000 people. It has one of the finest settings in the world with the Gatineau river, the Ottawa river, and the Chaudière falls. There is an opportunity to make Ottawa a capital outstanding in the world, a tourist centre with a highway built from here to the boundary line through Montreal towards New York, and a highway built from here to Toronto and through Toronto to Detroit and the great middle west. You can afford to spend two or three hundred million dollars on the development of this capital, its surrounding area, and the highway systems that lead to it, and every dollar will prove a sound investment.

Mr. FRASER (*Northumberland*): Dividend paying.

Mr. McGEER: Of course it will be dividend paying. Are you satisfied with the highway which moves north from Toronto to the Muskoka lakes district? You have the same thing in Ontario. Out in my own province, my own city that I know well, in the beautification of that city and the opening up of that area, the development of that port, the completion of the railway in the Peace River country, we have a twenty-five-year program there in which over the period of five-year units we can give expanding employment to everyone who was ever unemployed in our district or ever will be unemployed again, and give it with a country better because people were put to work instead of being left idle.

Take your city of Montreal. Here is one of your problems in financing to-day. Obsolescence fastens itself on to communities. Your street car systems are out of date. They must be scrapped and thrown away and modern transportation facilities developed. Montreal is a city which should have a tube system. It is ideally located for that. Moscow can build a tube and New York can build a tube, so why cannot the great city of Montreal have the same accommodation? These are the things that a national government must be concerned with. It is the same with Halifax and Saint John and Quebec and Toronto and every other city throughout Canada. Our railways—if you have ridden across this continent, you will know what I mean because it takes me some days to recover—our railways are built to stand the axle load that the modern freight train carries; our railways never were designed or built to carry the modern trains at the modern speed that is demanded. Our modern railway must be a railway with at least 24 inches of rock ballast, and curves must be eliminated wherever possible, and where not possible they must be compensated; and our steel rail must be a minimum of 127 pounds, that is a fixed standard. We have no such railways in Canada. Our modern railway equipment—street cars included—is obsolete. The entire structure of transportation must be rebuilt. We can do that if we want to, and we will be better off when we do it than we would be if we did not do it. We have millions of horsepower of energy flowing in wastage down miles of rivers to the sea. Our railways can be electrified. Rural electrification can be established in every part of the Dominion of Canada, and it should be; but until we move upon a program of that kind where are we going to find the employment for the tens

of thousands of industrial workers engaged in electrical work producing electrical equipment for war service to-day? We have at Vancouver thousands of people in the shipbuilding industry, thousands of people in other war industries, and I have talked to several of the leaders and the operators of those industries and as yet there is no program to move them into any industry of the kind they have been trained to operate in. We certainly must have a shipbuilding industry, and we cannot go on with the kind of nonsense that was perpetrated in the pre-war period where we built the biggest railway mileage that any people in the world enjoyed and forgot that it was necessary to have Canadian ships moving from the end of steel across the ocean. We threw away to foreign carriers in our foreign trade a very large portion of the profits that our trade developed. One could go into Halifax or Vancouver or Montreal and see every flag flying in the Merchant Marine and those ships were living off Canadian trade. I think the Greeks had more ships than we had in Canada, but the Japanese and everybody had their ships there too. And we sold our ships for \$50,000 apiece, ships that cost as much as \$1,700,000 each, just before the war came, because we could not balance the budget and maintain a program. That cannot go on. How much will it cost to launch a program of public works to sustain in employment those who cannot find employment elsewhere? I do not know. I think it is just as wide in its possibilities as the survey of the Unemployment Advisory Committee indicated for unemployment in New York city. But whatever it is, the monetary machinery of this country must be strong enough to carry the load, and it must be strong enough to carry it through an indefinite period of time. I think we can look forward to a great era of progressive prosperity in Canada after this war, and I believe if we develop it over a period of years and anticipate what it could be we can give not only employment with assurance, but security and hope and pride in our people in the development that takes place. That will eliminate the necessity of the Bloc Populaire, if you like, in Quebec, and the Socialists and the Communists throughout the dominion.

Now, I want to come to the specific proposition that we have before us, and I think we find it pretty well defined in the reference I gave the other day, and I say this because I happen to know Mr. C. E. Neill who, at the time, was Vice-President and Managing Director of the Royal Bank and was the very able assistant of Sir Robert Holt who was President at that time. A lot of people scoff at the social creditors and monetary reformers when they say that if you put the money into circulation and give the consumers buying power the other things will follow, and that the responsibility of government is to adequately maintain—not a volume of money available—but a volume of money in circulation that will keep things in balance. Now, Mr. Neill puts it very succinctly when he says:—

Over-supply of individual commodities could explain the decline in the value of one commodity in relation to another. Over-production of agricultural products in relation to manufactured articles would justify a decline in the price of farm products as compared with the products of industry, but when the average of all prices declines this can only be explained by an under-supply of that in which prices are expressed, i.e., money, and it would seem that if the effective supply of money is kept in the right relation to production of commodities the phenomenon of a declining average price level will not occur.

Mr. FRASER (*Northumberland*): What are you reading from?

Mr. McGEER: I am reading from the annual report of the Royal Bank of Canada for 1931.

Mr. FRASER (*Northumberland*): What page?

Mr. McGEER: Page 8. That is just another way of saying that if an adequate volume of money is kept in circulation in the right place full employment

will be obtained and a balanced national economy will take place. How else can it be done? Do you think we can do it under the debt claim system? Some people have twitted me with being afraid of the present debt position. Well, I want to direct the attention of the committee and of the minister to the budget speech of the Hon. Charles Dunning on April 25, 1939, in which, dealing with the debt situation, he says that the total revenue was \$490,000,000, the estimated expenditure was \$550,000,000 and the deficit was only \$60,000,000. Keep those figures in mind. Our deficit this year is roughly \$3,200,000,000 and our expenditures are \$6,000,000,000.

Now listen to what Mr. Dunning feared of the debt situation when it was only climbing at the rate of \$60,000,000 a year on a \$550,000,000 expenditure:—

Needless to say I am disappointed to have to contemplate another deficit of this size. I had fervently hoped that this year I would be able to offer to the house a balanced budget and as a result be in a position to begin the process of reducing debt and taxes. I have already outlined the reasons why this "consummation" devoutly to be wished must be deferred, and I have discussed at some length the forces which must be set to work to make it possible.

Let no one think I have changed my mind in regard to the necessity of a balanced budget. Doubtless I will remain the target equally of two extreme schools of thought; on the one hand, those who believe that a budget balancing is an outworn fetish, that a nation can continue to do what would soon bring an individual to disaster, and on the other hand, those who believe that governmental expenditure should be ruthlessly slashed regardless of the social distress and the cumulative deflation which would thereby be caused. I trust that Canadians of goodwill, regardless of party, will see that such criticism is merely the penalty which must be paid by public men who go neither to one extreme nor to the other but try to take the common sense middle course.

In times of depression, as I have already shown, increased expenditures on the part of governments are a sheer social necessity. Nevertheless, no nation can go on indefinitely with a budget heavily unbalanced without sooner or later providing a real, not an imagined, basis for fear as to the soundness of the country's financial position. If that fear should take root, nothing which a government could do short of taking over gradually the whole field of private enterprise, could offset the slowing up of private enterprise and the reduction in employment and incomes to which fear and uncertainty would give rise. Canada has had ten years of unbalanced budgets.

If it was fitting and proper for the Minister of Finance in 1939, in the face of that financial position, to warn against the danger of going on with unbalanced budgets, when he was measuring them in terms of \$60,000,000 of a deficit, what a desperate plight are we in today, measuring our deficit in terms of \$3,200,000,000! We have been going behind at the rate of an average of 2 billion dollars a year on our financial budget for the last four years. Am I advocating a continuation of unbalanced budgets? Not at all. I believe that with the correct administration, the sound administration, the wise administration of our national monetary power, we can balance our budget every year. I believe that, with the right kind of administration, on sound monetary principles, we can finance our nation out of unpayable debt in a comparatively short period of time.

MR. FRASER (*Northumberland*): May I, Mr. McGeer, just say there that you would balance it by replacing your credit with a productive asset.

MR. McGEER: Well, again, I am in the same position as was Professor Jackson. What I might think is a productive asset, you might think was not

one. You would probably not agree with me. For instance, I would think an old age pensioner is a consumer who would aid productive power.

Mr. FRASER (*Northumberland*): You would replace it with productive power?

Mr. McGEER: Yes.

Mr. SLAGHT: Suppose you let the speaker tell us just what he does mean and question him afterwards. I thought a motion was put to that effect and assented to by the committee.

Mr. FRASER (*Northumberland*): I will answer that.

Mr. McGEER: I had thought that when we launched our program in 1935, and talked about issuing currency and credit in terms of public need, that was what we intended to do. I did not think that we were going to set up a managed monetary system, to manage ourselves into unpayable debt. Do not make any mistake about it, this country, under its present policy, is sailing down the river of debt; it is going to go over the Niagara Falls of taxation, and it is going to wind up in the whirlpool of bankruptcy, unemployment and class dissension if this system is not changed. If there is no lack of evidence upon that situation now, let me call attention of the members of this committee to the test of public opinion in the elections that have been held since 1940. Our people are not satisfied and they are revolting against something. I think we are witnessing a plutocracy that is committing suicide. When the Prime Minister of this country declared to the public and to parliament that usury once in control would wreck any nation, what did he mean? We have not got usury in the ordinary sense in control. We have got mass usury, and mass usury gone mad.

Hon. Mr. ILSLEY: May I interrupt you, Mr. McGeer, by asking you this question: How would you have financed the war without running into debt?

Mr. McGEER: Yes.

Hon. Mr. ILSLEY: Would you tell us that?

Mr. McGEER: I have that in mind.

Hon. Mr. ILSLEY: Would you explain that?

Mr. McGEER: Yes, I shall be very glad to.

Hon. Mr. ILSLEY: That is something I have never understood from your speeches.

Mr. McGEER: I think the method of financing the war must be exactly the same method that we use to finance the conquest of poverty.

Hon. Mr. ILSLEY: That is something I never understood in your speeches; how you would do it?

Mr. McGEER: I shall be very glad to explain and I am going to deal with that. That is the very point I have in mind.

Hon. Mr. ILSLEY: Yes. Every country that I know of has done it this way, and I have never been able to understand how you could make enormous expenditures in a time such as we have gone through; that is, a time of devotion of half of your production to other than consumer purposes. I have never been able to see how you could do it without a disastrous price rise, without getting a lot of the money back from the people. That is what I want to have made clear.

Mr. McGEER: Getting money back from the people is one thing.

Hon. Mr. ILSLEY: Yes.

Mr. McGEER: Going into unpayable debt is another.

Hon. Mr. ILSLEY: How would you get it back?

Mr. McGEER: I would never create the debt.

Hon. Mr. ILSLEY: That is merely begging the point. How would you get it back?

Mr. McGEER: No, no.

Mr. SLAGHT: The same way.

Mr. McGEER: Just leave me alone, Mr. Slaght.

The CHAIRMAN: Order, please, Mr. Slaght. Do not interrupt.

Mr. SLAGHT: Borrow from the Bank of Canada.

The CHAIRMAN: Please, Mr. Slaght.

Mr. McGEER: I want to turn, Mr. Ilesley, to what I thought was the policy of our government. Let me give it to you from the speech in the House of Commons made by the Prime Minister on the 22nd of February, 1933. Here is the policy that he defined:—

The Liberal party believes that credit is a public matter, not of interest to bankers only but of direct concern to the average citizen.

It stands for the immediate establishment of a properly constituted national bank to perform the functions of rediscount and the control of currency issue considered in terms of public need.

A central bank is necessary to determine the supply of currency in relation to the domestic, social and industrial requirements of the Canadian people and also to deal with the problems of international commerce and exchange.

I desire to direct special attention to these words:—

—a properly constituted national central bank to perform the functions of rediscount and the control of currency issue, considered in terms of public need.

Not possible private gain. What you have done is this. Instead of using your national publicly-owned Central Bank to issue the medium of exchange required by the people, you have bonused a private banking monopoly with a reserve of Bank of Canada cash which has been issued through to the banks without charge of interest rate or without direct cost to the Bank of Canada or the chartered banks—

Hon. Mr. ILSLEY: No. But the main—

Mr. McGEER: Just a second. Let me complete this. Then you have authorized, by your practice, that private banking monopoly to exchange their promises to pay without interest for your promise to pay, as a government, with interest; and that has gone into circulation as the medium of exchange, not issued by the Bank of Canada but as a medium of exchange issued through the bookkeeping system of private banks in the form of a national debt which they have liquified in the form of a bank debt to depositors. I do not want any mistake about that. I want to get it on the record just as it was put by Mr. Graham Towers when he described the operation in his description of the manner in which \$909,000,000 of new money was created in 1943. I quote from his annual report, published in 1944, for the year 1943 at page 6:—

During 1943, the Canadian deposit liabilities of the chartered banks increased by \$748 millions. In addition total active note circulation (including Bank of Canada notes) rose by \$161 millions, making the total expansion in the volume of money, therefore, \$909 millions during the year.

Dominion and provincial government securities held by chartered banks rose by \$626 millions during the year. Most of this increase was accounted for by special short-term issues which were sold to the banks by the dominion government. The outstanding amount of six-months

deposit certificates bearing interest at three-quarters of one per cent per annum rose by \$275 millions during 1943, and on September 1st the banks bought \$200 millions of one and one-half per cent notes maturing July 2, 1945. In addition, a major part of the \$60 millions net increase in dominion treasury bills outstanding went into chartered bank portfolios.

Cash reserves of the chartered banks rose \$82 millions during the year, as shown in the table on page 1. Most of the expansion was necessary in order to maintain the cash ratio position of the chartered banks in view of the \$748 millions increase in their Canadian deposit liabilities referred to above.

What you did was simply this. You supplied the banks with cash that was used as a reserve to permit them to increase their bank deposits and to purchase your securities. Was ever a device more cleverly designed by which a government could bonus a private monopoly and then allow that monopoly to thrive by lending the government a security inferior to that which the government itself could issue? Now we are told by the Minister of Finance that if it were not for the fact that the banks can, under the present system, employ cash reserves to lend one, two, three, four, five, six, seven, eight, nine or more times as much in bank deposits, there would be no more inflationary effect through the issue of Bank of Canada currency than there would be through the issue of debt-claim money through the private banking system. I know people will say, "Oh, if you issued money, that would be inflation. We would lose the value of our currency internationally."

But what is the difference? Does anybody in this committee believe that a man who has a title to a bank deposit in Canada has not a claim upon the Bank of Canada for that much money? People have earned that money or accumulated it and every bank deposit in Canada should be represented by that amount of cash instead of being represented as it is to-day by a promise of a private banking monopoly to pay when demand is made. That bogie of inflation is pure nonsense. It does not exist but there are some other things that do exist. It is because of the weaknesses of that debt claim system that we are told by the Minister of Finance that the business of banking is based entirely on confidence. Why should it not be based entirely on money? Why should my confidence in some private banker's ability to pay a debt be the security for our monetary system? Yes, it deals in credit. Why does it not deal in money? Because it is much more profitable for one group in the community to operate a debt claim system than it is for the national government to operate a monetary system.

These amendments are designed not to weaken the banking structure of Canada but to make it as strong as the nation itself and to give the government power to maintain as security for money and all other wealth in Canada a going concern activity that will not be reflected in terms of unbalanced budgets in the treasury of the national, provincial and municipal governments, but in balanced budgets there and a balanced economy throughout the nation.

Hon. Mr. ILSLEY: You are going to answer my question some time?

Mr. McGEER: Just a minute.

Mr. MACDONALD (*Brantford*): I was wondering that. I think the whole committee is expecting an answer to the question.

Mr. McGEER: May I answer the question in my way? Just let me say this: that is to say, it issues its own promise or undertaking to pay cash on demand. Why should there be any promise to pay? Why should not the bank have cash in the bank to pay these depositors? That is the difference between a debt claim system and a sound currency system. Mind you, that will be changed and that monopoly will be broken, or that monopoly will wreck this nation. -

Let me go on with the statement of the Minister of Finance.

That is to say, it issues its own promises or undertakings to pay cash on demand or on short notice, which promises or undertakings serve as the popular medium of exchange and as the form in which the liquid savings of the public are held. Going to the other side of the balance sheet, the assets of the banking system, which are the security behind these promises or undertakings given by the banks, are largely only the promises or undertakings of other individuals or business firms or governments to pay cash, usually over a longer period of time. Assuming no intervention of higher authority, the promises or undertakings of the banks to pay cash on demand or on short notice are only good as long as banks are conducted in such a way as to retain the confidence of the public in the banks' ability and willingness to pay.

Why should there be a situation of that kind in a sound monetary system? What is this intervention of a higher authority without which the banks cannot make good their promise to pay depositors unless the confidence of the depositor is such that he never asks for payment? The intervention of that higher authority is the Bank of Canada which alone can pay depositors the cash they own. You say to me how would you finance this war without going into debt and without levying the burden of taxation that is being levied? Instead of issuing debts issue national currency.

Mr. MACDONALD (*Brantford*): And instead of borrowing from the people?

Mr. McGEER: I did not say anything about that.

Mr. MACDONALD (*Brantford*): That is a debt.

Mr. McGEER: I did not say that. Why do you want to put words in my mouth?

Mr. MACDONALD (*Brantford*): I am not putting words in your mouth.

The CHAIRMAN: Order.

Mr. McGEER: Just let me carry on through. I said that instead of issuing national debts we should issue national currency. To what extent would that power be employed? There are two other sources from which the government can secure the means of financing its program in times of peace and in times of war. One is taxation. In wartime the level of taxation can be imposed to advantage on a much higher plane than in peacetime, but even in wartime taxes can be detrimental to a war program as they are in many instances in this war.

Hon. Mr. ILSLEY: You would tax some? You would collect some taxes?

Mr. McGEER: I would use the power to tax, and in wartime I would use it to the very limit that it could be employed to prevent war profits of an excessive character and to utilize it to the greatest extent to divert everything towards the production of war goods. The only quarrel I have with your system of taxation during the war, and your system of controls, is that they were not attended with sufficient educational propaganda for the people and they were not employed without some indifference to their actual results. For instance, I believe—and I have made a study of it—that in British Columbia in the shipyards we could by using the bonus system have secured more ships with about one-third less men in the shipyards. While we would have paid the men higher wages who were working we would not have paid as much for the ships as we did. I took the Minister of National Revenue into a war plant and what did we find? We found that at a quarter to five several hundred men were lined up at the gates. You know it has gone on all over this country.

Mr. FRASER (*Northumberland*): And is going on today, too.

Mr. McGEER: He said to me, "Is there a strike on?" I said, "No, the discipline here is productive of this kind of thing. There is absenteeism in the lumber camps and throughout the whole organization".

Mr. FRASER (*Northumberland*): That is what I referred to.

Mr. McGEER: That is blamed by a great many on excessive taxation. Much of the complaint we find is not against controls that everyone agrees were necessary but in a deliberate—as it almost appears sometimes—and unnecessary interference with certain rights of the people. I think that probably these mistakes were inevitable and no one ever complains about anybody who makes a mistake providing he is ready to acknowledge it and correct it and not repeat it. The one reason why we should face boldly the reorganization of our monetary structure is because we in the public life of this nation who have been in it for the last ten years on both the Liberal and Conservative party sides of politics should acknowledge we made a horrible mistake in our methods of financing the depression and in our methods of preparing for the crisis that we knew was threatening.

Yes, you say to me how would I finance? I would exhaust the means of taxation. Then I would have resorted to borrowing from the public and I would have made the same appeal that has been made but I would have gone further. I would have said to the people with savings bank accounts, which range on an average at about 2,000 million dollars, "These savings bank accounts should be transferred to the service of the government". Anybody that has made a study of savings deposit accumulations in this country knows that over the last period of twenty-five years savings accumulations have been steadily climbing. People as they grow richer, and our people have been growing richer, in times of depression develop a propensity for a cash reserve. They want it for personal security. They do not want it in a bond; they do not want it in an investment of any kind. They want a certain amount of cash and it varies in great amount. They want it for a rainy day and when the rainy day comes they have a desire to hold on even more. The result is we have not varied our savings bank account accumulations very much, and even during the war period it has been increasing. I would have used those savings. I would have transferred a substantial portion of them to the use of the government and I would have given the savings bank depositor a savings certificate deposited with the bank and cashable on demand. I would have added to the security of the banks the security of the government of the Dominion of Canada and if necessary the promise of the Bank of Canada to pay on demand.

Mr. FRASER (*Northumberland*): At what rate of interest?

Mr. McGEER: At exactly the same rates that the banks were paying. I would have transferred the cost from the chartered banks to the Bank of Canada.

Mr. MACDONALD (*Brantford*): Would that not have increased our national debt?

Mr. McGEER: Not a bit.

Mr. MACDONALD (*Brantford*): I cannot see that.

Mr. CLEAVER: Mr. McGeer, it costs money to service savings accounts.

Mr. McGEER: We will come to that, too. You do not need to worry about that. That would have increased our national debt but it would not have increased the volume of spending power. Those deposits would be transferred as a debt from the banking system, which in this instance is only a part of the economy of Canada, to the whole economy, but you are using the same debt.

Hon. Mr. ILSLEY: I agree.

Mr. McGEER: You assume as a nation that portion of the debt which your banking system has been carrying. Therefore, your interest obligation

is not increased; your volume of money is not increased and the total volume of your overall debt is not increased.

Hon. Mr. ILSLEY: But you are running in debt; the government is running in debt.

Mr. McGEER: Only by transferring the debt from a big public utility service to the national economy, but the total overall debt of the nation is not increased if you include the debts of the banks as part of the debt of the whole nation, which I do.

Hon. Mr. ILSLEY: I do not want to spoil your speech, but I have been trying to get from you certain things. We have heard so much about the lack of necessity of our having increased the debt of Canada during the war. I have been Minister of Finance since the summer of 1940, and I am prepared to defend the policy of financing this war by Canada because I believe it to have been the only intelligent policy that could have been followed, and I am trying to get the differences between you and me. You would tax and you would run into debt just as we have taxed and have run into debt, and I do not see how you can do anything else in time of war; certainly no other country has done it or tried to do it. Now, is there some secret, some magic formula? If there is, tell us what it is.

Mr. SLAGHT: There are \$2,700,000,000—

Hon. Mr. ILSLEY: I am talking to Mr. McGeer at the moment. I listened to Mr. Slaght yesterday, and I know the opinion I formed of his remedy; but I want to find out what Mr. McGeer's policy for war financing is.

Mr. McGEER: You will get it. Sit back and listen a while. I appreciate very much the hearing you are giving me, and I may not be able to convince you, but what I have to offer is offered for your consideration and acceptance and for the consideration and acceptance of members of this committee; and it is offered in a sincere spirit of a desire to co-operate with you and the members of the government and the members of parliament in meeting a situation that is difficult and fraught with danger. Now, that is my approach. I did not come into public life to destroy; I came to build; and, Mr. Minister, I have a record of public service of which I am proud—

Hon. Mr. ILSLEY: I am not attacking you at all.

Mr. McGEER: I may not have the right idea on this, but you have asked me how I would finance this war. I would not have taxed as much as you did. I would not have borrowed as much as you did.

Hon. Mr. ILSLEY: From the public?

Mr. McGEER: Well, I think I would have borrowed more from the public.

Hon. Mr. ILSLEY: Then you would have run into debt more than we did.

Mr. McGEER: Oh, no. Let us come to an understanding on that. I would have borrowed from the public; I would not have borrowed from the private banks—

Hon. Mr. ILSLEY: I understand that.

Mr. McGEER: —and that would have saved us roughly \$2,700,000,000.

Hon. Mr. ILSLEY: It would not.

Mr. McGEER: You assume it would not.

Hon. Mr. ILSLEY: I know it would not.

Mr. McGEER: All right, I will go this far with you. We will go to the point of saying that we will tax and we will borrow to the limit of the public's capacity to lend and then we will use our national currency for the balance.

Hon. Mr. ILSLEY: I think that is the issue.

Mr. McGEER: That would have reduced the amount of debts imposed by borrowing from the private banks; we would have national currency, not bearing interest, outstanding, instead of public debt outstanding bearing interest.

Hon. Mr. ILSLEY: You would have to do something as the result of the situation you create. You could not borrow from the nationally owned system and leave the privately owned system sitting side by side with it with all the deposit carrying obligations which they had and say that you save the total amount of the interest.

Mr. McGEER: We are not talking about the interest; we are talking about the debt. It is even more dangerous than the interest charges. We are talking about having a monetary system that should have something behind it instead of debt. We are talking about transferring the monetary economy of this nation from the debt claim system to a sound money system, and those who adhere to the proposition that we must go on pyramiding debt on debt are admittedly headed for disaster. Now when Mr. Dunning's prophesy is coming true, the evidence from Mr. Graham Towers was: We are taxing ourselves out of private industry and out of individual enterprise into state aid and into public ownership. That is one of the most serious situations that you have to face if you are Minister of Finance over the next few years, and the most difficult.

Mr. GRAHAM: That is a wholly separate problem, Mr. McGeer, don't you agree?

Mr. McGEER: He said taxation was the cause of it.

Mr. GRAHAM: That is a separate problem altogether.

Mr. McGEER: Maybe; but you will never get away from taxation under the debt claim system.

Mr. GRAHAM: Like the minister, I would like to have you continue to answer the minister's question.

Hon. Mr. ILSLEY: It is pretty well answered. I think the issue between Mr. McGeer and myself comes down to this, that instead of borrowing from the chartered banks to the extent that that borrowing was necessary or that some borrowing was necessary, he would borrow from the Bank of Canada, and he would have attached the 100 per reserve provision to the deposits created as the result of the borrowing from the Bank of Canada. I think that is the issue.

Mr. MACDONALD (*Brantford*): And he would have borrowed all the savings.

Hon. Mr. ILSLEY: Yes.

Mr. McGEER: I did not say all.

Hon. Mr. ILSLEY: Some of them.

Mr. MACDONALD (*Brantford*): I am not tying you down.

Mr. McGEER: You cannot do that. I warn you not to try.

Hon. Mr. ILSLEY: It is just a compulsory loan; that is all it is.

Mr. McGEER: Well, Mr. Minister, if it is within the power of the nation to compel men to move into the front line and offer their lives it is not within the power of the nation to put the financial resources to the nation's use at this time? Let me refer you to a great Canadian statesman who in 1917 laid down the principle that the conscription of men without the conscription of wealth was not Liberalism. That statement was made by the Right Hon. Sir Wilfrid Laurier.

Hon. Mr. ILSLEY: I am merely describing your remedy, I am not condemning it.

Mr. McGEER: I am glad to follow Sir Wilfrid Laurier in that regard, and I am glad you disagree with Sir Wilfrid Laurier and myself.

The CHAIRMAN: Please, Mr. McGeer.

Hon. Mr. ILSLEY: Don't go off the deep end that way. You were suggesting that we compel—

The CHAIRMAN: Mr. McGeer, the minister has a right to make a statement.

Hon. Mr. ILSLEY: You are suggesting that we should have compelled savings bank depositors to lend part of their deposits to the government. In the course of the discussion somebody referred to that and said that was a compulsory loan. I did not condemn it. I was merely describing your proposal. It would have practically no economic significance.

Mr. McGEER: Let me describe it to you in the way I would have done it. I would have presented that proposition to the people and I would have appealed to them to agree with me, and I think the vast majority would have. I do not think it would ever have been necessary if that proposition were presented properly to the people.

Mr. FRASER (*Northumberland*): You have great faith in human nature.

Mr. McGEER: I have great faith in human nature, and I have great faith in Canadianism. I have never known the Canadian people to have a proposition that had merit presented to them by a public man that they did not support.

Mr. GRAHAM: Would you compel those who disagreed with you and would not do it voluntarily to do it?

Mr. McGEER: I certainly would. I would not hesitate to do that.

Mr. MACDONALD (*Brantford*): I understood you to say you would not take all of the savings.

Mr. McGEER: No, I do not think that would be necessary. What we did have at that time and what we still have—we went out and created nine hundred and nine millions of new money. We had two billions odd in the savings account of Canada. Those two billion dollars were not necessary to service the Canadian people, they were lying idle in the savings banks. You ask me why the banks pay $1\frac{1}{2}$ per cent to keep their savings bank depositors at that level. There was not any loss of savings when the rate was cut from 3 per cent to $2\frac{1}{2}$ per cent, to 2 per cent and then to $\frac{1}{2}$ per cent, and under circumstances to-day where they pay a little over 1 per cent. Now, the bankers have done that, and there has not been any movement out of the savings bank accounts. Remember what my proposal was, that in addition to the banker's promise to pay, the savings bank depositor got the initial security of the promise of the government to pay. If the savings bank depositor were willing to leave his savings deposit in the chartered bank with no other security behind it than the promise of the banker, surely he would be willing to leave his savings in the services of the government when the deposit was guaranteed by the government as well as the bank.

Mr. FRASER (*Northumberland*): And let the banks lend it instead of himself?

Mr. McGEER: The banks did not. They went out and created a new nine hundred and nine million dollars. Now, we have had a good deal of discussion about that, but let me say this: I wanted to examine the bankers on this proposition, but I did not get a chance to do it, so I put it before you; when the bank makes a loan it does not go to its books or its vaults and secure a portion of the capital which is the working capital of the bank and credit the borrower with the amount of the loan and debit the capital account; it does not go to an account of one of its deposits, savings or current, and transfer from that account to the account of the borrower and credit the borrower with that amount of money. Now, in the days when banks dealt in money and I went to the bank to get a loan of money I got paid over the counter coins or currency bills, and when the bank paid me this the bank

had to debit its deposits or its capital account. To-day when a transaction takes place that is not what happens at all. New money is created by the banking practice of writing a new deposit into the bankers' books.

Mr. GRAHAM: Not if you want cash.

Mr. McGEER: Yes, if you want cash. It would not make any difference whether you took it out in cash or not.

Mr. CLEAVER: It does.

Mr. McGEER: Not a bit.

Mr. GRAHAM: Just in the interval, am I right in assuming that as regards Mr. Slaght's suggestion and your suggestion that Mr. Slaght would take the two billion, seven hundred million dominion securities and replace those by Bank of Canada notes with 100 per cent reserve while you, under your suggestion, would take the savings deposits from the bank and replace those with Bank of Canada notes. What have you left the banks?

Mr. McGEER: What have I left the banks? The banks deal in cash. Suppose you take \$2,700,000,000 of dominion government securities and transfer them to the Bank of Canada, then the banks would have \$2,700,000,000 in Bank of Canada cash.

Mr. GRAHAM: Which they cannot use to make a profit.

Mr. McGEER: Why?

Mr. GRAHAM: Because you have 100 per cent reserve.

Mr. MACDONALD (*Brantford*): They would not have the \$2,700,000,000 because you are going to take the savings accounts and they would have to use the \$2,700,000,000—

Mr. JAKES: But according to you they have lent their savings.

Mr. McGEER: No. You and Mr. Graham are assuming that because Mr. Slaght says they have to have 100 per cent reserve in cash for deposits, that you cannot lend because to lend you must increase your deposits, but you overlook the fact that the banks deduct from their accumulated cash the amount which they have lent, just as they would if they had lent actual cash. You come in and deposit \$100 and the bank then lends your \$100 to Dr. McCann. You have lost the deposit which has been transferred to Dr. McCann and he becomes a new depositor. You become a creditor of the bank dependent for repayment on the security of Dr. McCann's loan. So that on that loan the 100 per cent reserve which was behind your deposit is now behind the deposit created by Dr. McCann on his loan. The bulk of their loans are not made out of their savings deposits at all, they are made by creating new deposits put into circulation. Of their current accounts, accounts are being paid in every day and new accounts are being carried on, and the \$1,900,000,000 of current deposits turn over and over again. It is in that loss of circulation which must some day come to the use of the nation that we are finding it impossible to carry on the affairs of our nation as a going-concern activity without pyramiding an ever-accumulating load of unpayable debt. My reading of history tells me that we are putting our footsteps in the paths that brought Europe to disaster; and if I am able to read anything at all, the warning I read in Adam Smith is that the funding and refunding of debt which would bring Europe to disaster—and it has—would bring any nation to disaster that pursued it as a continuous course.

If you do not think that England is in a desperate plight with her 12 billion dollars of blocked liabilities, and if you do not think that Mr. Dunning was speaking words of wisdom when he warned us against accumulating debt, then it may be easy for you to believe that we are in a position of security, looking forward to continuing the pyramiding of our debts at the rate of 2

or 3 billion dollars a year. Let me tell you that you cannot maintain the economy of this nation on any basis of reasonable employment without spending as much annually over the next five years as you have been spending to prosecute the war. If you think you can, I hazard the guess that you are going to be greatly mistaken. That means that at the end of that time you are going to have what? How many times the national debt? Twenty? Twenty-five?

Mr. SLAGHT: Twenty-six.

Mr. McGEER: How much of an interest load? How much then will the burden of taxation and debt be upon the business of this nation? If there is any security in that kind of thing, all well and good. But the conditions that were described by Mr. Graham Towers as bad, we can look forward to as infinitely worse.

Mr. CLEAVER: How much less would it be under your scheme? I have asked you two or three times to explain it. How would you pay the cost of savings bank deposits? I think you are trying to present your views. But if they are to be of any use to me—and perhaps I am slow in taking them in; I have to deal with one step at a time—I have to understand them. I should like to know who is going to pay the cost of servicing the savings accounts; because if the government is going to pay the cost of servicing the savings accounts, plus the cost of the interest paid to those depositors, I think we will be paying as much in interest charges as we are now paying.

Mr. SLAGHT: Why not let the people who get the benefit of the services pay the cost of servicing? You heard that put forward. You know that.

Mr. CLEAVER: No. I may be dumb about this, Mr. Slaght, but I do not understand Mr. McGeer. It does cost money to service savings accounts.

Mr. SLAGHT: Yes.

Mr. CLEAVER: And it does cost money to pay these savings depositors their interest. I add those two together, and I say that the total might be quite as large as the Dominion of Canada is now paying for interest charges on those bonds.

Mr. SLAGHT: You are wrong, of course.

Mr. CLEAVER: Show me where.

Mr. McGEER: Let me put this proposition to you in answer to that, because we have not been given any information as to what the cost of servicing these savings accounts is.

Mr. CLEAVER: No.

Mr. McGEER: You are merely talking in circles and the ball comes back.

Mr. CLEAVER: No. On your statement—

The CHAIRMAN: Order.

Mr. McGEER: Let me explain this to the committee. In England, under Gladstone, they established the post office savings banks of England, where the bulk of the savings of the people in England.

Mr. NOSEWORTHY: Have we not provincial savings banks?

Mr. McGEER: Just a minute. That is quite true. Those post office savings are at the service of the government; they circulated as expenditures of the government and the chartered banks of England are not given any compensation for the servicing of the savings that are used by the government through the post office savings accounts. Austin Chamberlain, who was one of the great chancellors of the British Exchequer and was Lord Mayor of

London, established the Municipal Savings Bank of Birmingham; and the Municipal Savings Bank of Birmingham is the finest example of the people being given the facility to use their own medium of exchange in the servicing and the development of their community. We have our savings bank in Ontario. The idea that the banks required to be paid a bonus from the state to carry on their business and to plunge the country into debt is a fallacy in political economy and in monetary science that can only end in the eventual bankruptcy of the nation.

Now, Mr. Chairman, I think that these amendments are designed to take away from the chartered banks the power of hopping and fettering the democratic government of Canada, private interests and our national economy with the hobbles and fetters of unnecessary and unpayable debts.

We have been told on several occasions that the Bank of Canada has control over the volume of the medium of exchange in circulation.

Mr. SLAGHT: Effective.

Mr. McGEER: Well, it has no such control at all. It has one power and one power alone, and that is the power to precipitate a depression. It has no power to do anything else. It can go down but it cannot hold to a level and it cannot bring a nation out of depression. On the 8th of March, 1938, the Honourable Charles Dunning undertook to explain to parliament what the effective measures of control were. Among other things he said this:—

We have long since cut adrift from gold. For better or for worse, for the time being at least, we are on a managed paper standard, just as is the United Kingdom.....As everyone knows, the story of the last century or more, particularly in the Anglo-Saxon countries, is a story of the gradual rise of bank deposits to perform the monetary work of the business world.....briefly stated, the Bank of Canada exercises its control over the chartered banks by operating on the cash reserves of the banking system, either by conducting so-called open market operations or by altering its rediscount rate, or by both."

He goes on then to say:

Speaking of the banks as a whole, the proportion or percentage of cash which the banks keep is in practice about 10 per cent, and by law it must be at least 5 per cent.

The Bank of Canada can expand or contract these collective chartered bank reserves at will, always providing that it can buy and sell securities or other suitable assets when it wants to. It is the buying and selling of securities for this purpose by the Bank of Canada that are commonly known as open market operations.

Then he goes on to describe that:

The second well known mechanism by which the central bank exercises control is the deliberate raising or lowering of its rediscount rate. High rates, of course, tend to contract business enterprise and low rates tend towards expansion."

Mr. Bennett intervened:

But there are no re-discounts in Canada.

Then Mr. Dunning goes on:—

The rediscount rate is in effect; I shall come to that in a moment. I was saying that high rates tend to contract business enterprise, and low rates tend towards expansion. The control exercised by this method is indirect rather than direct, and it may not be very effective unless there is a well developed money market sensitive to changes in discount rates.

These are the major weapons which the central bank may use in carrying out its primary function of controlling the volume of credit and currency in use in the country.

That was fully discussed in the Macmillan committee and they pointed out how weak and inefficient those particular methods were.

Mr. CLEAVER: Mr. Dunning indicated that an easy money policy would cause a buoyant effect on the economic life of the country, and that the Bank of Canada did have power to cause a buoyant effect on the economic life of the country. He said that in his speech.

Mr. McGEER: At page 129 of the Macmillan committee report—I thought I read into the record what Mr. Dunning said.

Mr. CLEAVER: I heard what you read and I do know he said that.

Mr. McGEER: I do not think it was necessary for you to interpret what Mr. Dunning said. I read it from his speech.

Mr. CLEAVER: Before reading from the speech you made a positive statement that the Bank of Canada only had power to depress the economic life of the country.

Hon. Mr. ILSLEY: The words were "Precipitate a depression."

Mr. CLEAVER: I say the speech you read did not at all corroborate what you said.

Mr. McGEER: I quite agree with you but what I read into the record was exactly what Mr. Dunning said. Now I am going to deal with it not from what I say about it but from what the Macmillan report in England said about it. What the Macmillan committee report said about these factors of control is that they are not effective controls at all.

Mr. SLAGHT: Mr. Chairman, rising to a point of order, the gentleman who last interrupted, and who has frequently interrupted, is the gentleman who moved a resolution before this committee that Mr. McGeer be allowed to make his statement and the questions should be asked afterwards.

Mr. MACDONALD (*Brantford*): Mr. Chairman, I rise to another point of order. If I remember correctly Mr. Slaght himself was one of the first to interrupt the speaker.

Mr. SLAGHT: You are quite wrong.

Mr. MACDONALD (*Brantford*): I think what he has said about Mr. Cleaver applies equally to himself. So far as I am concerned I think the questions that have been asked have been enlightening. We cannot all follow Mr. McGeer's address and it is necessary at times to ask questions in order to try to understand his proposal.

Mr. CLEAVER: Inasmuch as Mr. Slaght has referred to me I want to say this, that any interruptions which I make, and I think any interruptions which any other member of the committee makes, are in the hope of arriving at a true picture of what the member is endeavouring to present. I want Mr. McGeer and Mr. Slaght to be willing to admit that I am just as sincere in my desire to achieve for this country the proper financing of the war as Mr. McGeer and Mr. Slaght are, and to understand their proposal. The only way in which I can understand the proposal is if the facts in regard to the proposal are given to us one at a time. Coming back again to this question of the compulsory taking of the savings deposits I think that whole proposal should be properly explored. I say to Mr. McGeer that I think he should be willing to tell us what he thinks the costs are of servicing these accounts and add that to the interest paid to savings depositors, and then measure that with the actual interest costs which we are paying as a government on bonds. Then, coming to his next proposal of debt free money he should tell us how much debt free money, in addition to what has been issued, he thinks should be issued. Then we can

analyse and explore the facts that would necessarily result from that, but he does not tell us the amount of additional debt free money that he would create.

Mr. SLAGHT: I did not intend to impugn the sincerity of the hon. member but it is his inconsistency in moving a resolution upon which I withdrew my request that Mr. McGeer attend as a witness; then the itch for knowledge overcomes him and he goes back on his own arrangement. My friend knows well enough that he can make a pencil note of these questions and ask them afterwards. I have seen Mr. McGeer interrupted and I have been interrupted myself for six weeks at odd times, and that method of going on is not the best way to secure information or to have matters properly presented before the committee.

The CHAIRMAN: I think you had better proceed, Mr. McGeer, but I must say, Mr. Slaght, that from my memory you have interrupted once or twice yourself.

Mr. SLAGHT: Of course I have, but I have never moved a resolution not to interrupt anybody and then become the chief interrupter.

Mr. MACDONALD (*Brantford*): You voted in favour of it.

The CHAIRMAN: You were the original suggester that Mr. McGeer be not interrupted. Before I make my suggestion I must say that the committee has been very, very good.

Mr. McGEER: I appreciate it.

The CHAIRMAN: Very attentive; I am sure Mr. McGeer will agree with me.

Mr. SLAGHT: I think so, too.

The CHAIRMAN: Then, let us let it go at that and get on.

Mr. McGEER: After describing the operation of that hard money policy by raising rates and soft money policy by lowering rates and hard money policy by buying securities and easy money policy by selling securities, which are all the powers we have to-day, the Macmillan committee at page 136 says this:—

It is for these reasons that central banks should favour a persistent and determined policy to maintain an abundance of cheap credit in their domestic money markets, sufficient both to satisfy the unusually large demands for liquid resources due to nervousness in the financial world and also to support any new productive enterprises coming forward.

This was in the depression in England in 1931.

Very low rates of discount prevail, it is true, already, but have so far failed to bring about the transfer of money from short term to long term loans. The main practical obstacle which we see in the way of a resumption of long term investment is the shortage of acceptable and willing borrowers for the purpose of new enterprise, due to the general unprofitableness of industry. The task is, therefore, a double one; partly to attract borrowers of unquestioned standing by a low rate of interest on long term loans, partly to increase the supply of attractive loans. With the first end in view, central banks might use their influence to promote confidence in the duration of low short term rates and to persuade the member banks of their system to reduce the rate of interest allowed on deposits, so as to discourage the public from withholding their resources from the investment market.

The greatest difficulty, however, which we foresee is the fulfilment of the second task, namely, to remedy the shortage of definitely sound borrowers for the purpose of new enterprise. The vicious circle is complete. The decline of new enterprise has reacted adversely on profits and prices, and the low level of profits and prices stands in the way of new enterprise. It is for this reason that some of us think that in the domestic field it may be necessary to invoke governmental enterprise to break the vicious circle. In the international field measures of an

analogous kind would have to take a somewhat different form. In this case also the vicious circle is complete. The unwillingness to lend, coupled with the frequently unwise use of borrowed funds, has destroyed the credit of borrowers, which reinforces the unwillingness to lend. In many cases, no single creditor is ready to take the risk which is absolutely required in the interest of creditors as a whole. It may be, therefore, that some form of guaranteed credit is required.

That is exactly what we found. In 1938, 1937, 1936 and 1935 we poured out Bank of Canada cash free. We had in 1939, according to my examination of Mr. Graham Towers, available for use in Canada on the gold reserve in the Bank of Canada, and under our monetary laws, the power to issue bank deposit money to the extent of ten thousand million dollars and yet there was nothing we could do to put the 300,000 people on unemployment relief to work—and with their children they numbered 900,000—there was nothing we could do to build up our coast defences, to eliminate our level crossings, there was no means of putting the people to work; why? Our youth rode the rods; our people were partially unemployed, and yet there was no greater abundance of money in the history of the Dominion of Canada than that which parliament had provided with monetary machinery. The Hon. Mr. Dunning in answer to the hon. member for Rosthern said: Why, if we used our surplus cash on the existing gold reserve to create new bank deposits we would have an inflationary condition. He did not use the expression which was used afterwards that that would blow the lid off. Why, he said, that would increase our bank deposits somewhere between five and six billions of dollars. The trouble with that Minister of Finance was that he did not realize that to put the people of Canada to work it required between five and six billion of dollars of bank deposits, or real money. To-day we are up against a challenge that we could not avoid. The pressure of war saw us use a managed currency system to bring full employment to the people of Canada, and we could not do it with a budget of \$500,000,000 a year, we had to do it with a progressive budget that went to \$6,000,000,000 a year. That is the thing that this committee has got to grapple with. If you allow this country to go back, as it will go back, under this monetary administration, into conditions bordering on anything like those which existed in the pre-war days then you are doing something to this nation for which I feel the consequences will be more disastrous.

Now, do you say, Mr. Minister, that there is no other way to finance a going concern activity of modern civilization unless it is done by discounting our national bonds in a private banking system? May I bring this to the attention of the committee—

Mr. MACDONALD (*Brantford*): The minister never said that.

Mr. McGEER: I have been scorned and jeered at when I said, first, that we should have a publicly owned bank. Why, they said, the politician will wreck that. I was scorned when I said that we should dispense with gold in our internal currency, when I said that we should have a program of national spending in times of employment that would be guided by one factor alone: when there are people unemployed and there is worthwhile work to do in Canada the national authority that can create the medium of exchange should put those people to work. Do you disagree with that?

Let me come back to my point of how that can be financed. Did anybody dream in 1934 when we were advocating the public ownership of the Bank of Canada that the day would come when it would stand possessed of a billion dollars of dominion government securities? Yes, a billion and some odd hundred millions. That is the situation today.

Mr. FRASER (*Northumberland, Ont.*): That was obvious at the time.

Mr. McGEER: Obvious when?

Mr. FRASER (*Northumberland, Ont.*): At the time the bank was formed. That was the purpose, was it not?

Mr. McGEER: No. It was not supposed to ever hold anything like that amount of securities, and it didn't even begin to until the war came; but to-day it has investment in dominion guaranteed and provincial government securities not exceeding market value \$787,000,000. Other dominion guaranteed and provincial government securities \$472,000,000. That makes a total of \$1,260,000,000 at the end of 1943, and the issue against that is now \$2,400,000,000 of Bank of Canada cash.

Mr. FRASER (*Northumberland, Ont.*): Because that credit was required; you agree with that?

Mr. McGEER: Because the bank had the power to issue it when the emergency came up.

Mr. FRASER (*Northumberland, Ont.*): That is the point I mentioned.

Mr. McGEER: No, that is not the point you are making and it is not what you are saying, and it is not what goes on the record. What you were saying is it was because the credit was required. It was because an emergency existed which neither the Bank of Canada officials nor the government could resist. The credit was required just as much back in 1935 and 1936 and 1937 to put our Canadian people to work.

Mr. FRASER (*Northumberland, Ont.*): You misunderstand me. I am not arguing with you.

The CHAIRMAN: Please allow Mr. McGeer to finish his argument.

Mr. McGEER: Credit being required is not the test, because the credit was required in the days of unemployment.

Mr. FRASER (*Northumberland, Ont.*): I am not arguing that point.

Mr. McGEER: The credit was required for days of war. The pressure of war was so much greater than the pressure of the demand of the unemployed and starving Canadians that in one instance although credit was required, it was not forthcoming, but under the pressure of war it was forthcoming; but it was there all the time.

Mr. FRASER (*Northumberland, Ont.*): I agree with that.

Mr. McGEER: I do not care who the man is, I unhesitatingly make the charge that all the misery and suffering in Canada during the last depression was due entirely to bad government based on bad advice from unsound so-called economic and monetary advisers. We never were without the means of financing full employment in Canada during that period of time, and the deceit that took place through that unemployment is just commensurate with nonsense that goes on in piling up and piling up a load of debt. And let me say that this debt of the Bank of Canada is a debt of all of the people of Canada through the government to all the people of Canada. It is not a debt at all. That debt in the Bank of Canada, because we own that corporation, can be written out any time. It is there merely to carry out the debt fiction. We owe it entirely to ourselves. We pay the interest to the Bank of Canada and the Bank of Canada then pays the interest back to the government. But that is not so with the debt we owe the chartered banks; that is not the kind of internal debt that can be described that way. The debts that we owe to the chartered banks are owed by all of the people through government to some of the people; and while we can eliminate the debt to the Bank of Canada because we owe it entirely to ourselves, we cannot eliminate the portion of the debt to the chartered banks because some of us do not participate in the ownership of that debt. But let me put this to this

committee as a business proposition: if I am right on the position of the debt to the Bank of Canada, then these chartered banks have a stock value of \$145,000,000, plus the reserves, which would put the entire stock value of the chartered banks of Canada at a figure of something under \$400,000,000.

Mr. SLAGHT: \$287,000,000.

Mr. McGEER: Well, it would come higher. Give them something for goodwill. Give them \$400,000,000 for their stock.

Mr. NOSEWORTHY: Hear, hear!

Mr. McGEER: And when we did that, if we bought the stocks of the chartered banks of Canada and became owners of the banks, all of the people in Canada would then become the owners of 3,000 million dollars.

Mr. FRASER (*Northumberland, Ont.*): Would you advocate the nationalization of the banks, then?

Mr. McGEER: If the banks are going to continue to be the toll gates through which the national finances must be secured at interest and debt load obligations, then that is inevitable.

Mr. MACDONALD (*Brantford*): You would not—

Mr. McGEER: Unless the chartered banks want to go back to the business of private enterprise and leave the business of public finance to the government, then it is as certain as that night follows the day that this thing can go on for very little longer before the entire population of Canada will rise up and demand the nationalization of the banks.

Mr. MACDONALD (*Brantford*): You would not like to leave the impression that all that sum of money you suggested would be clear profit? Surely there will be a lot of liabilities we would take.

Mr. McGEER: Not a single liability, but the power of the Bank of Canada to issue in cash the money which the depositors have already earned.

Mr. MACDONALD (*Brantford*): You say the banks have no liabilities?

Mr. McGEER: None whatever. What are their liabilities?

Mr. MACDONALD (*Brantford*): What about the deposits?

Mr. McGEER: The deposits are not liabilities. The deposits are liabilities in the form that they are put up by this monopoly, but the deposits should be there in money. The Bank of Canada cannot escape the liability to the depositors.

Mr. MACDONALD (*Brantford*): Surely there is a liability. If you took over all the assets of the banks, you would surely take over the liabilities.

Mr. McGEER: You are a lawyer. Let me put a simple legal proposition to you which I think you can understand.

Some Hon. MEMBERS: Oh, oh!

Mr. MACDONALD (*Brantford*): Make it very simple.

Mr. McGEER: I am not being facetious now.

Mr. MACDONALD (*Brantford*): Quite so.

Mr. McGEER: I think you are sincerely trying to understand this proposition.

Mr. MACDONALD (*Brantford*): Yes.

Mr. McGEER: Let me put to you, as I say, what I think is a simple proposition in law. You are a bank depositor. As a result of being a depositor, you have a contract with the bank. It is an agreement to pay you the amount of your deposit in legal tender cash. Is that not right? All right, then. The bank does not happen to have that cash, as you now know, because it only keeps a reserve of 10 per cent of its total deposits. But if all of the depositors appeared at one and the same time one of two things would happen. The bank would transfer its assets to the Bank of Canada and get legal tender cash or the bank would go bankrupt and you would take a certain percentage on the dollar. Now,

I say to you it is my firm conviction that since we established the Bank of Canada if ever a situation happened with any one of our banks to-day—

Mr. FRASER (*Northumberland, Ont.*): They would come to the rescue.

Mr. McGEER: The Bank of Canada would come to the rescue and whatever obligation would be taken over by the Bank of Canada in assuming ownership of the stock exists to-day as a direct obligation of the bank and it would not be increased one whit. It is the Bank of Canada that is the issuer of legal tender cash and the Bank of Canada alone that can make good the promise of the chartered banks to pay Bank of Canada cash. There would be no increase in the liability at all, and the idea that there would be an additional liability imposed upon the Bank of Canada is an utter fallacy. The only result would be the liquidation of 3,000 million dollars of public debts.

You have asked me how these things can be done. They are going to be done. Do not make any mistake about that. I have studied and worked on this problem for a great many years and, of course, before the war I was able to say, and say with definite certainty, that if war ever came they would have no difficulty in financing it. I now change to the other picture and I say that we are not going to have any difficulty in financing full employment. I should like to discuss the details of the terms of the amendments, and as it is now six o'clock I suggest that I will finish in the morning.

Mr. FRASER (*Northumberland, Ont.*): What is the program for to-morrow? Is Mr. McGeer to continue?

Mr. McGEER: I can finish in half an hour.

The CHAIRMAN: Would you want to have time in the morning? I understood you would be through this afternoon.

Mr. McGEER: I should like to deal with the amendments specifically. It will not take me very long in the morning.

The CHAIRMAN: An hour?

Mr. McGEER: Not any more than that, and I hope less than that.

Mr. CLEAVER: We have some other witnesses here to-morrow whom I asked to be here.

The CHAIRMAN: I will talk with you about that. I think they should submit a brief.

The committee adjourned at 6.05 o'clock p.m. to meet again on Thursday, July 20, 1944, at 11.30 o'clock a.m.

July 20, 1944.

The Standing Committee on Banking and Commerce met this day at 11.55 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, let us proceed.

Mr. SLAGHT: I suggest, Mr. Chairman, that the committee change its quorum from fifteen to ten. We have lost twenty-three minutes this morning.

The CHAIRMAN: We would not have had even our ten members on time this morning. Mr. Slaght. Mr. McGeer, will you proceed?

Mr. McGEER: Mr. Chairman, yesterday the matter arose in connection with a liability that would be created or that some seemed to think would be created by the Bank of Canada taking over the savings deposits. Now, I have already explained that the Bank of Canada, according to Mr. Towers, stands behind the banks for any demand that the depositors might make on them, and I think it should be remembered that every depositor owning a bank deposit in Canada

has earned that money and that he is the possessor of money to the value of the bank deposit credit which he holds. If, instead of using the bankers' debt dealing system we were operating on a national credit basis every depositor in every bank in Canada would have in the possession of the bank or loaned by the bank to someone else the actual amount of his deposit in cash. He has that theoretically to-day, because it is assumed that any time he wants his deposit he can get it out of the 10 per cent reserve in cash, and that if that were not sufficient our chartered banks could go to the Bank of Canada and secure whatever amount was necessary.

Now, there would be no liability in the sense of a debt liability between the Bank of Canada and the depositors if the Bank of Canada merely became the custodian of the depositor's cash.

Mr. GRAHAM: Through the chartered banks?

Mr. McGEER: Yes. If they had the cash to which the depositor really is entitled and that cash were transferred from the chartered banks to the Bank of Canada neither the chartered banks nor the Bank of Canada would be holding a liability in the sense of a debt; they would be trustees or custodians holding a commodity in the form of cash.

Now, when I said that there was no liability involved in the transfer to the Bank of Canada some might assume that by transferring the obligation to pay the interest—by assuming the obligation on which the chartered banks have to pay interest, that a liability would be created there; but again that is not a true liability. One per cent is now the amount on the average which the chartered banks pay their depositors. The rate is $1\frac{1}{2}$ per cent but it works out to considerably less than that because it is fixed at certain times on certain balances. So assuming that the rate is 1 per cent, then the banks pay their depositors \$20,000,000 a year on deposits of two thousand million dollars, and I use the figure of two thousand million although it is something over \$2,200,000,000 at the moment. Now, the banks are relieved of paying that interest and the Bank of Canada assumes it. The over all liability is not changed; it is merely transferred from one section of the community, namely, the banking system—and it leaves its toll upon the whole business of the whole community—to the Bank of Canada.

Let us assume that in addition to the interest which the Bank of Canada would pay, that another half of 1 per cent would be incurred in the cost of servicing the savings bank deposits. That would be roughly \$30,000,000 a year. Again the servicing cost would be taken over from the banking system and assumed by the Bank of Canada and there would be no increase in the over all liability there.

Hon. Mr. ILSLEY: We have the exact figures for last year.

Mr. McGEER: I do not know what the exact figures are, but I have had considerable investigation and my understanding is that the servicing of savings deposits runs considerably below one-half of 1 per cent.

Hon. Mr. ILSLEY: I do not mean exact figures on that: the interest on deposits last year paid by all the banks was \$24,500,000.

Mr. McGEER: As I said, Mr. Minister, I was using a round figure of \$2,000,000,000 of deposits although I understood it was something like \$2,200,000,000, but I have no quarrel with the \$24,000,000; we can use that figure.

Now, assuming that \$30,000,000 charge, what is the result to the treasury as a whole? The government then has at its disposal the saving deposits which are now idle and it could substitute two thousand million dollars which it would secure at $1\frac{1}{2}$ per cent for two thousand million borrowed from the public at 3

per cent. In other words, the transaction works out to assuming a liability of \$30,000,000 and making a saving of \$30,000,000. You pay \$60,000,000 now for two thousand million borrowed from the public at 3 per cent. By adopting this transaction and taking over the savings you save \$30,000,000 on money borrowed from the public, and if that is a liability I think it is the kind of liability that any sound business man would like to assume. And there is—

Hon. Mr. ILSLEY: What is the proposal? Is it that the Bank of Canada go into the savings bank business?

Mr. McGEER: Just as they have done in Australia and for years in England through the post offices.

Hon. Mr. ILSLEY: I am saying that if the Bank of Canada goes into the savings bank business we have the Post Office Department in the savings bank business now.

Mr. McGEER: We have all the machinery; the Bank of Canada can take over the Post Office Savings Banks or use the Post Office Savings Banks and expand them; and there are the bank facilities to service the savings accounts in every village, in every hamlet and in every city and community where there is a post office.

Hon. Mr. ILSLEY: This is a new proposal.

Mr. McGEER: You asked me what I would do if I were in your position to finance against this debt claim system, and in that came up the question of using the savings of the people.

Mr. McNEVIN: Give us an estimate of what that would cost.

Mr. McGEER: I think that servicing the deposits would probably cost us \$10,000,000 a year, a half of 1 per cent which I added to the 1 per cent of interest which is paid by the banks which made a total over all cost of \$30,000,000 a year, and we are now borrowing money from the public at 3 per cent.

Mr. McNEVIN: \$24,000,000—and \$6,000,000 would be all you would have to pay.

Mr. McGEER: I used the round figure \$2,000,000,000 for the purpose of the argument.

Mr. SLAGHT: The postmasters are all being paid.

Mr. McGEER: In any event, the argument I wanted to direct to the attention of the committee was the question of whether or not there was a liability involved to the Bank of Canada in taking over the savings of the people and using them. Now, you say what would be the position of the savings bank depositor? He would have his money in the Bank of Canada and he would get his money for emergency purposes without any question of confidence in the ability of the Bank of Canada to pay; and we are told that the whole foundation of the present banking system is dependent upon the confidence of the people to the extent that they won't ask the banks to pay them their savings deposits in such amount as would be beyond the cash reserves of the banking system. The savings deposits would be absolutely secure; every emergency need could be serviced and the country would save as against borrowing at 3 per cent some \$30,000,000 a year.

Mr. NOSEWORTHY: Would not the public ownership of the banks facilitate the ideas that you have in mind?

Mr. McGEER: Well, I am opposed to the idea of the socialization of money—

Mr. NOSEWORTHY: But you admit that it would do that?

Mr. McGEER: I do not agree with the proposition that our commercial banks should be nationalized.

Mr. NOSEWORTHY: You lack confidence.

Mr. McGEER: I am not afraid of government ownership but I believe in free enterprise and that the principle of commercial banking is the soundest way to maintain it. I do not believe in the socialization of money or the nationalization of the banking system; however, that is another argument and has nothing to do with what I am saying now.

Mr. McNEVIN: The government would go into the deposit business.

Mr. McGEER: The government are already in the deposit business in the post office savings banks.

Hon. Mr. ILSLEY: Yes.

Mr. McNEVIN: In Australia where they have opened up savings office in connection with their central banks they are doing between 30 and 40 per cent of the business I understand.

Mr. McGEER: I believe in England where their financial experience is much greater than ours, and in Australia where they have been moving towards socialization more than we have, that they have found some good reason for having the savings of the people at the disposal of the government. One of the greatest institutions that I have ever had the privilege of examining was the municipal bank of Birmingham—and I believe similar banks have been established in Edinburgh and Glasgow, and those communities use the savings of their people to finance any of their large public utilities such as the housing program and so on.

Mr. GRAHAM: Mr. McGeer, am I right in assuming that you are speaking about Mr. Slaght's amendment?

Mr. McGEER: This arises out of questions that were directed to me.

Mr. GRAHAM: As you know, we have an amendment before this committee.

Mr. McGEER: I say this has come up out of questions which were asked of me. Now, I refer to a further warning which Mr. Dunning gave to us in 1939.

Mr. NOSEWORTHY: Might I ask a question?

Mr. McGEER: Yes.

Mr. NOSEWORTHY: Just for information, do you propose—I am in agreement of course—do you propose to take away from the banks their right to invest in government bonds and securities and transfer to the government savings deposits; would there be sufficient left to warrant our carrying on a system of commercial banks?

Mr. McGEER: Oh, I think there is.

Mr. KINLEY: That would prevent any person from doing a banking business.

Mr. McGEER: I am not saying that they do not use the savings now, that they do not put them into the business there. I do not think—

Mr. McNEVIN: As to the two and a half billion dollars which the government owe the banks, what rate of interest covers that; take it on that basis.

Mr. McGEER: What is that again?

Mr. McNEVIN: At the present time the government is using in from the banks about two and a half billion.

Mr. McGEER: \$2,700,000,000.

Mr. McNEVIN: Yes, \$2,700,000,000, what would be the rate on that?

Mr. McGEER: We are told, we haven't got the exact rate, we are told that the government are paying to the banks now something in the vicinity of \$30,000,000 a year.

Hon. Mr. ILSLEY: 1.59 per cent.

Mr. McGEER: Well, as a matter of fact, if they issued their own currency they could probably reduce that to one-half of one per cent.

Mr. FRASER (*Peterborough*): Don't you think if the government were to ask for deposits that they would have to bring up the interest rate paid to the people; they are now paying 2 per cent whereas the banks are only paying $1\frac{1}{2}$ per cent; don't you think the government would have to reduce their rate?

Mr. McGEER: I do not know, it would be a matter of policy, and the government would be governed largely by the type of mind and the kind of men who were in the government.

Mr. FRASER (*Peterborough*): Take Saskatchewan, they reduced the interest on bonds there.

Mr. McGEER: A great many men are like Lord Keynes, if you read some of the books he has written he says that the tendency is to steadily reduce the rate of interest, and that a reduction in the rate of interest all the way through is inevitable. However, I cannot answer for what any future government would do. But what I want to point out is this, and I am giving the committee the warning which Mr. Towers first gave us in his report, and I think an even greater warning was given by a former minister of finance, the late Hon. Charles Dunning, and what he said when there was only a \$60,000,000 deficit was this: no nation can go on indefinitely with a budget heavily unbalanced without sooner or later providing a real fear as to the soundness of the country's financial position. And if that fear should take root in any age all a government could do would be to take over the whole field of private enterprise. Now, I would want the committee to remember that we have been operating on budget deficits now for fourteen years, and there is not a possible chance of our looking forward to any period of time in the future when under this system we can get away from deficit budgeting. We certainly cannot do it in the reconstruction period and if we ever dared to follow the advice given by some of the witnesses to this committee, the budget should be balanced with ruthless taxation, why we would produce the worst depression that this country has ever seen.

But now I want to come to another phase of it and I want to show how simple it would be for us to take over the chartered banks. The chartered banks have their stock on the market at present market prices, and the entire value of the chartered banks' stock is less than \$350,000,000.

Mr. NOSEWORTHY: How could they go that far?

Mr. McGEER: The chartered banks have on deposit with the Bank of Canada \$385,000,000—the Bank of Canada, which is the government—and through their use of cash which the banks have on deposit with the Bank of Canada and pay that over to the shareholders in every bank, the value of their stock and in that way become the owner of three thousand million dollars of their own debt. Now, there is no simplicity in that—

Mr. KINLEY: That would not be fair, of course.

Mr. McGEER: But you notice that they are very willing to sell their stock on the market now.

Mr. NOSEWORTHY: They are anxious to sell it and reduce their liabilities.

Mr. McGEER: What?

Mr. NOSEWORTHY: They are so anxious to sell them that they have reduced them in price.

Mr. McGEER: In any event, surely if you took a man's stock over at a price at which it is selling on the market or if you want to give him something more than that, give him another \$35,000,000, and use the \$385,000,000 that is on deposit in the chartered banks.

Hon. Mr. ILSLEY: That belongs to them.

Mr. McGEER: It belongs to them, of course, it belongs to them but it is in the possession of the Bank of Canada.

Hon. Mr. ILSLEY: It is very easy to take a man's property and buy his property with it.

Mr. McGEER: Oh no, now just a minute. You are lawyer enough to know this, that if I buy the stock of an incorporated company I get title to all of the assets of the company.

Hon. Mr. ILSLEY: Yes.

Mr. McGEER: And when I go out on the market and buy—

Hon. Mr. HANSON: What about the liabilities?

Mr. McGEER: The liabilities as well. And when I go on to the market and buy a bank share I have title to my proportion of the share of all the assets of the company.

Hon. Mr. HANSON: And their liabilities.

Mr. McGEER: Now, if I happen to be able to buy a company that has a deposit with me, a sum of money, when I buy those shares that sum of money belongs to me.

Hon. Mr. ILSLEY: You cannot use that money to buy the outfit with because you are taking that money, you are taking the man's property to buy the whole thing with.

Mr. McGEER: All right; let me answer that one, which I do not agree with at all.

Mr. MACDONALD (*Brantford*): It is a fact though.

Mr. McGEER: Let me answer that one. Instead of issuing that \$385,000,000 the Bank of Canada issues a new \$385,000,000.

Mr. MACDONALD (*Brantford*): That is a different proposal entirely.

Mr. McGEER: Then we buy the shares of the banks and we get our \$385,000,000 back because it is on deposit and we own the deposits then, and we get 3,000 million dollars of debts for nothing. You see, I have heard a lot of nonsense.

Hon. Mr. HANSON: That sounds good but I think there is a fallacy there.

Mr. McGEER: You find it.

Hon. Mr. HANSON: I think I could.

Mr. McGEER: I will tell you where the fallacy is.

Hon. Mr. HANSON: You have challenged me to tell you where the fallacy is. This 3,000 million dollars you are talking about so glibly is produced by the savings deposits of 4,500,000 or perhaps 5,500,000 depositors, people of Canada, and you are going to confiscate their deposits. That is the fallacy. Let us get down to brass tacks and let us not parade fallacies before this committee.

Mr. McGEER: I do not think that the Minister of Finance would agree with that nonsense.

Mr. NOSEWORTHY: Are they not as safe in the Bank of Canada?

Mr. McGEER: We change these savings deposits from a mumbo-jumbo bank into a bank that has the entire wealth and resources of the Dominion of Canada behind it.

Mr. FRASER (*Peterborough*): I do not think that Mr. McGeer should call any bank a mumbo-jumbo bank. I do not think that is right at all. You are trying to discredit the banks and it is wrong.

Hon. Mr. HANSON: Let that pass; it does not mean anything.

Mr. FRASER (*Peterborough*): It is not right; it should be withdrawn.

Mr. McGEER: I agree with you and I will withdraw it.

Mr. McNEVIN: I have one further question. You made a comparison of taking over these deposits through the post office banks and you compared that with the money that was borrowed from the public at 3 per cent interest. Instead of comparing that with the borrowings from the public at 3 per cent interest make the comparison with the money that is borrowed, \$2,700,000,000, from the chartered banks at a little over 1 per cent and tell us how you come out there.

Mr. McGEER: Would you just put that again? I do not seem to follow your question.

Mr. McNEVIN: You offered the suggestion that the government through the extension of the post office deposit services take over \$2,200,000,000 in deposits and they would then have it at something over 1 per cent, $1\frac{1}{2}$ or $1\frac{1}{4}$ per cent. Then you compared that with the borrowings from the public on which the government pays 3 per cent. Compare that with the \$2,700,000,000 which is borrowed from the chartered banks at less than $1\frac{1}{2}$ per cent.

Mr. McGEER: All right; let us deal with that. Instead of borrowing from the chartered banks for public enterprise you borrow from the Bank of Canada and the cost of servicing that borrowing by the Bank of Canada would be probably less than one half of 1 per cent, but to-day you are borrowing from the public at 3 per cent when you have 2,000 million dollars available to you at $1\frac{1}{2}$ from the public without causing any inflationary condition at all.

The desire, of course, on the part of everybody is to avoid flooding the monetary system with more money than is needed to sustain the going concern activity.

Mr. McNEVIN: Mr. McGeer—

Mr. McGEER: But by putting savings to work you do not increase the inflationary condition by a dime. When you borrow from the banks and they create new money you do create an inflationary condition.

Mr. McNEVIN: You have not shown me what the saving would be to the government as between taking over the deposits and using them by the government which you said would cost about $1\frac{1}{2}$ per cent, and the present method whereby the government is borrowing from the chartered banks at about $1\frac{1}{2}$ per cent.

Mr. McGEER: The government is not borrowing the savings of the public. The government is borrowing new bookkeeping money which is dangerously inflationary.

Mr. McNEVIN: Oh no.

Mr. McGEER: As regards that what I say is that should be financed by the Bank of Canada and not by the chartered banks.

Mr. McNEVIN: The government is definitely borrowing the proceeds of deposits.

Mr. McGEER: You say so but we disagree on that. I want to deal with one item that Dr. Clark interjected here the other day in which he said that if we took over this \$2,700,000,000 of public liabilities the banks would lose \$32,000,000.

Dr. CLARK: \$35,000,000, I think.

Mr. McGEER: And the result would be that they would be in the red to the extent of about \$4,000,000.

Dr. CLARK: On the basis of last year.

Mr. NOSEWORTHY: Plus their losses.

Mr. McGEER: Well, without their hidden reserves accounted for. You completely overlook the fact that if the government starts putting money

into circulation and going concern activity resumes, as it would resume, the banks only have to lend \$600,000,000 at 5 per cent to gather in another \$30,000,000 of revenue.

Dr. CLARK: Additional.

Mr. McGEER: Additional revenue, of course, and that is not any more than they were lending before they got into this business of collecting a substantial portion of their revenue from interest bearing public bonds. You completely leave out of the picture the opportunity the banks have, if they want to, to adjust their service charges and to secure revenues from that source.

Dr. CLARK: I did not leave it out. I merely stated what the effect would be at this moment of Mr. Slaght's proposal.

Mr. McGEER: I am suggesting there are other means of taking up that position and taking care of it which are much more sound and much more equitable than the present practices. I agree our large department stores, our large chain stores, our large corporations, have been able to accumulate a cash reserve and, as a matter of fact, they do not need the services of the banks to anything like the extent they did a few years ago. Modern business practice of turning over their stocks much more rapidly, speed of transportation and a thousand and one things, have reduced the need for banks to service the going concern activity to the same extent that it existed before. But all of these businesses receive from the commercial banks a great exchange service. Every individual has the same service. There is no reason in the world why that service, efficiently rendered by the banks and their clearing houses, of being the custodians of the money of the people and transferring it by cheque, should not be paid for, and if the principle in taxation that those who can pay should be taxed according to their ability to pay, surely then the principle of those paying for the service to whom the service is rendered is equally just and sound. I say in our system of taxation here is one absurdity that comes right here. We levy an excess profits tax on the banks. That is 100 per cent. I do not know just how much it amounts to, but the total income taxes and excess profits taxes recovered from the banks last year were \$11,000,000, 11.4 millions. I think that the \$400,000 was on note circulation so that you can take the round figure of \$11,000,000. Their operating expenses before taxation were \$99,000,000. Their operating revenues were \$144,000,000, making their gross revenue before taxation 45.5 millions of dollars. Now, check that over for a capital of \$144,000,000. But we are going to be asked to pass an amendment to this Bank Act to allow the banks to raise the rate of interest from 6 per cent or 7 per cent to $9\frac{3}{4}$ per cent on a man who needs to borrow—

Mr. MACDONALD (*Brantford*): They are doing that now.

Mr. McGEER: —less than \$500 to take care of a sick child or any other emergency.

Mr. MACDONALD (*Brantford*): Some banks have been doing that up to the present time.

Mr. McGEER: All right. What I say is that our taxation sometimes is one of the factors in raising costs. Let me give you another instance. You asked me what I would have done if I had been in your place. The first thing I would have done would have been to take off the sales tax. The sales tax all over this country has increased the cost of the war and the cost of living. What followed with the sales tax? We offset that with a cost of living bonus. Then, having a sales tax and a cost of living bonus, we then imposed a tax on wages; and then we offset that with a bonus to production. That is the kind of vicious circle which indicates to me that the taxation system is far from scientific, that it is a hit or miss program which grows up and develops under the pressure of each emergency. The whole thing needs a complete and thorough examination, and

a complete revision; because I firmly believe that a correct examination into the taxation policy that we have imposed will disclose that it has increased the cost of the war by hundreds of millions of dollars and that it has decreased the efficiency of the war effort by a very substantial amount. Of course these are things that, once developed, require investigation for adjustment. What is the plan of those who are opposed to us who believe that reforms must come in our monetary system, those of us who conscientiously fear the danger of going on piling up by deficit budgeting unpayable debts, those of us who believe that the burden of taxation has already gone beyond the point of diminishing returns, is that it is repressive to private enterprise, that it is restrictive upon the expansion that this country must have, is those of us who put forward these amendments because we are confident that they are steps in the right direction looking to the establishment of a nationally sound monetary system? What is the plan that any of those who oppose us have to offer? Going on borrowing from the chartered banks? Allowing this monopoly to assert a tollgate power upon the financial strength of this nation? Because I say to you as members of this committee that the defect is not only in the matter of the profits the private banks make or in the matter of their hidden reserves; the great defect in our monetary system is the restrictive limiting power that it imposes upon democratic government.

Mr. JAUQUES: Hear, hear.

Mr. McGEER: Can anybody stand up and tell me that we could not have issued \$50,000,000 of Bank of Canada cash back in 1937, 1938 or 1939 to put the unemployed in Canada to work without causing disastrous inflation? Nobody would say that to-day, would they? But do not make any mistake about it, it was said. In 1939 the late Mr. Woodsworth, who was then a member of the Banking and Commerce Committee, put these questions to Mr. Towers; and he made these answers:—

Questions by Mr. Woodsworth on the effects of the government borrowing \$50,000,000 from the Bank of Canada at 1/20 per cent per annum, to use for public works.

(1) Would \$25,000 per annum pay the Bank of Canada's expenses?

If the Bank of Canada's participation were limited to creating first a deposit in the dominion government account and later deposits in the accounts of the chartered banks, then \$25,000 per annum, obviously, would more than cover any additional cost to the bank. However, if it were necessary to issue and service Bank of Canada notes, the total cost involved would be much greater than \$25,000 per annum, as is illustrated by the statistics in the table on page 402 of the Minutes and Proceedings.

(2) What would be the procedure?

There are two possible methods of procedure:—

(a) The government might withdraw the \$50,000,000 in Bank of Canada notes and use them to pay contractors and others.

(b) The government might issue cheques on its account in order to make payments to contractors and others.

(3) The effect on the accounts of the chartered banks?

(a) Regardless of which of the procedures just mentioned was adopted, the result would be to increase the cash reserves of the chartered banks by about \$50,000,000.

(i) If the government had used Bank of Canada notes as a means of making payments, almost all of those notes would find their way back to the chartered banks increasing their cash reserves.

(ii) If the government drew cheques on the Bank of Canada, those cheques would be presented by the banks and credited to their

balances at the Bank of Canada, thus increasing their cash reserves by \$50,000,000.

(b) The Canadian deposit liabilities of the chartered banks would be increased by about \$50,000,000 through the deposits by the public. This increase in chartered bank liabilities would balance the increase of assets in the form of cash.

(c) The increase in cash reserves would stimulate the banks to add their earning assets, which might, if the banks could find suitable loans or investments, increase by \$450,000,000 and increase deposit liabilities by the same amount. Deposits would then be \$500,000,000 larger than before this transaction occurred and assets larger by the same amount in the form of \$50,000,000 cash and \$450,000,000 other assets.

Then he goes on:—

(6) The possibility of inflation?

In raising this question Mr. Woodsworth pointed to the currently low level of the general wholesale price index as compared with 1920 and 1929, as an indication, I assume, of the probable remoteness of inflationary results from the \$50,000,000 transaction which he described.

Internal monetary expansion of this type may not produce a marked increase in the general price level for a time because of the importance of export and import prices in the Canadian price structure. It will, however, tend to lower the rate of interest and increase the burden borne by savings depositors, policyholders and, in general, those who receive fixed interest incomes.

How could that happen? It could happen in only one way and that is on the assumption that the expenditure of \$50,000,000 to put unemployed Canadians to work would have boosted the price level. We know today that we have been able to control the price level notwithstanding the fact that we have issued into circulation, into the public's buying stream and into the banks, not \$50,000,000 but \$1,400,000,000 odd of Bank of Canada cash.

Hon. Mr. ILSLEY: You could not have set up price control in 1936.

Mr. McGEER: You could not have?

Hon. Mr. ILSLEY: No.

Mr. McGEER: You would not have needed to if you had put the people to work, because you were not suffering from inflationary prices; you were suffering from falling prices.

Hon. Mr. ILSLEY: No, not in that period.

Mr. McGEER: Why, of course you were.

Hon. Mr. ILSLEY: I do not think so.

Mr. McGEER: Your price level had not achieved the aim of the monetary conference of 1932 or 1933, or the Roosevelt administration's target of 1926 levels or 1928 levels.

Hon. Mr. ILSLEY: That is not what I said.

Mr. McGEER: I say your prices were still down, not up.

Hon. Mr. ILSLEY: That is different from what you said.

Mr. McGEER: Yes, but it is a different point of view. For a man to tell us as chief fiscal adviser of the government that we were too poor to put our people to work and that if we dared to issue \$50,000,000 we would have wrecked our economic structure—

Hon. Mr. ILSLEY: He did not say that.

Mr. McGEER: Of course, that is the inference. In any event, we did not do it, and the unemployed remained unemployed and the youth of Canada rode the rods.

Mr. GRAHAM: I do not argue the merits of what we should have done with regard to the \$50,000,000, but as a committee have we not the fact before us that the United States did actually as you are urging should have been done, and while they may have alleviated considerably the sufferings of the people in the United States, yet the fact remains that it failed to cure the underlying causes that gave rise to unemployment.

Mr. McGEER: Thousands of Canadians went down there to find work—hundreds of thousands of them—and got it.

Mr. GRAHAM: They poured billions—

Mr. McGEER: But they did the same thing we did. I think the United States is headed into a more dangerous condition than we are. Their federal reserve system is not a publicly owned system; that is a private banking monopoly down there—and I do not think we can get any consolation out of the bad debt position which the monetary system has imposed upon the United States.

Mr. MACDONALD (*Brantford*): Mr. Graham is pointing out that the United States did in 1938 what you said Canada should have done.

Mr. McGEER: All right. Then, let me put this to you: that kind of argument denied the government of Canada who wanted to put unemployed to work, the power to use its own money with which to do the job.

Mr. GRAHAM: I am not arguing that we should not have done what you suggest for the purpose of giving temporary employment; my point is that it does not cure the underlying causes that lead up to unemployment.

Mr. McGEER: We may disagree on that. I think that the United States by the spending policy of its government set things in motion down there for the benefit of the United States, but I think that we in Canada by the sale of our pulp and paper and many other things to the United States in their advancing economy were plucked out of the depression more by the United States than by the action of our own government. There is the situation of yesterday, and it is just as nonsensical in the light of subsequent years as the old argument that we used to hear that you cannot issue money into circulation through the national treasury or through the national banks unless you have got a gold reserve behind it. We are coming along. We have gone from gold forever as far as the limiting power of gold on our internal currency is concerned; we are going to use gold more effectively in our international field, I believe, than we have ever done before; but it will never again be the means of restricting the amount of money which a government can put at the services of its people as a form of internal medium of exchange.

Mr. NOSEWORTHY: Will you permit a question now, or would you care not to be interrupted at the moment?

Mr. McGEER: I would like to wind up this point if I may. Here is the danger of inflation that Mr. Towers gives us. He wants to put it on the record through the Minister of Finance speaking in the House of Commons on July 15, 1942 at page 4270. He made this statement:—

Everyone familiar with the working of the banking system knows that, the moment the banks get their hands on additional cash—I mean by that Bank of Canada notes, or deposits by the Bank of Canada which are convertible into Bank of Canada notes

Hon. Mr. ILSLEY: Deposits in Bank of Canada, it must mean.

Mr. McGEER: I am quoting from July 15, 1942.

Hon. Mr. ILSLEY: It is a small correction, but it must mean that.

Mr. McGEER: I agree with that, Mr. Minister. Bank of Canada deposits are cash:—

Everyone familiar with the working of the banking system knows that, the moment the banks get their hands on additional cash—I mean by that Bank of Canada notes, or deposits by the Bank of Canada which are convertible into Bank of Canada notes

Hon. Mr. ILSLEY: The word “by” should be “in”.

Mr. McGEER: Yes. When the banks get those reserves in their hands powerful forces are set in motion to get the banks to buy securities themselves, to make loans themselves so that the deposits with the chartered banks will be 7, 8 or 9 or ten times as great as their cash reserves. That lies at the basis of their whole profit-making activities. The way they make money is by lending more money than they have. What they have is a cash reserve and unless a bank has out several times—6, 7, 8, 9 or ten times its cash reserves, it is not being profitable or from the banking point of view properly conducted. Now, is there any member of this committee who is prepared to say that that power to inflate and create a stock boom, if you like, as it did in 1929; that power to create 7, 8, 9 and ten times more in the way of loans than they have got; and that power of inflation as accompanied by the power of deflation; that is exactly what happened in the last boom and the last depression. The banks advanced their loans and then when those were paid off and withdrawn the money that had been put into circulation in the form of bookkeeping entries of the banks was taken out of circulation and that was the thing that caused more suffering and hardship throughout this dominion than any other financial disaster that we have ever had. Is that going to be continued? It will be continued if this amendment fails to carry. I have asked this committee to approve of this amendment, that no chartered bank may issue new money unless it is authorized by a board consisting of the Prime Minister, the Minister of Finance and the Governor of the Bank of Canada. Should these bankers be given the power to do what they have done in the past in the coming post-war period; should that power be left in the hands of a group of private monopolists when in the exercise of that power they can create at their will the disasters of boom and depression?

Mr. GRAHAM: Then, Mr. McGeer, you would have the Prime Minister, the Minister of Finance and the Governor of the Bank of Canada in full control of the amount of loans to the public by the banks; then I would point out that the necessary corollary, they would have to determine the amount of loans that they could call in, is that not true?

Mr. McGEER: No, I did not say anything about that at all. I say that that is a power they should have in respect to the creation of new money.

Mr. GRAHAM: And you say that it is created by the making of loans and the buying of securities.

Mr. McGEER: But before they go ahead and manufacture money in their own bookkeeping system to expand the volume of currency they would have to make application to the Governor of the Bank of Canada.

Mr. GRAHAM: And what about credit?

Mr. McGEER: The same thing.

Mr. GRAHAM: That committee would have to determine the amount that they could invest in securities and the amount they could lend to the public; and having done that, how much they could contract their investments and securities and their loans to the public.

Mr. McGEER: Well, that brings me to the situation as it exists today. I made the statement and I went on to deal with it this morning, that the only controls which the Bank of Canada have are in those prescribed by Mr. Dunning, which I read to the committee yesterday, and which he laid elaborately before the House of Commons. I said that the Bank of Canada can precipitate a depression but it cannot take this country out of a depression. Now, that has

been very very thoroughly examined by the MacMillan Committee and they recommended remedies for that particular situation. We know as a matter of actual experience that the Bank of Canada cannot take this country out of a depression. The only relief that came to those inflicted with unemployment and the threat of starvation came from municipalities, the provincial governments and the federal government with the dole in the first instance and then expenditures on public works designed to create employment for the unemployed; but the Bank of Canada was powerless and tinkering with the bank rates by flooding or withdrawing cash reserves to the chartered banks, had not the least effect upon the depression. And now, the reason for that was—

Hon. Mr. ILSLEY: Was not the situation improving steadily in the late thirties and around then?

Mr. McGEER: A ten-year depression may be a "situation" with you, that I am not—

Hon. Mr. ILSLEY: Please; I am not talking about that at all. You are making a statement that the Bank of Canada did nothing and it was no relief.

Mr. McGEER: None whatever.

Hon. Mr. ILSLEY: I do not think that is so.

Mr. McGEER: As far as the Bank of Canada is concerned.

Hon. Mr. ILSLEY: The credit base was being expanded; perhaps not as rapidly as you would like and conditions were steadily improving; is that not correct?

Mr. McGEER: No, I thoroughly disagree with you Mr. Minister; and I happen to have been on that line in a very difficult way. We formed during that period the Mayors' Conference and we who were in the municipal offices had the full burden of the situation that existed all the way from Halifax to Victoria.

Hon. Mr. ILSLEY: During what period was that?

Mr. McGEER: During 1936—35, 36 and 37.

Hon. Mr. HANSON: Primarily that is where it belonged until it became a national emergency.

Mr. McGEER: That was after the depression had been going since 1930, and in 1939 there were over 300,000 people unemployed and on the dole and over 900,000 on relief. A great many more were living on capital without employment and a great many more were only partially employed.

Mr. McNEVIN: Was it not prior to 1935 that you were mayor of Vancouver?

Mr. McGEER: No, I was elected in 1935; 1935, 1936 and 1937. The MacMillan committee at page 95, reading from section 214, says:—

The methods by which a modern central bank controls the volume and terms of credit in its domestic monetary system consist, in the main, (1) in what are known as "open market operations", that is to say the purchase or sale of assets in the market on the initiative of the central bank itself, and (2) in varying the terms on which it will purchase assets on the initiative of the seller, which is conveniently summed up as bank rate policy and the raising and lowering of the bank rate.

Are you aware as members of this committee that the banks do not borrow any Bank of Canada cash, and that the power to raise and lower the interest rate on the amounts borrowed by the chartered banks from the Bank of Canada is non-existent, and can have no effect whatever?

Hon. Mr. HANSON: It is in existence but they do not require it.

Mr. McGEER: It is not in operation. We are agreed on that. Mr. Bennett agreed with me on that. What is the effect of buying and selling securities? In 1939 examining Mr. Graham Towers he admitted to me that the cash

reserves on a gold standard basis within the possession of the Bank of Canada and the chartered banks were sufficient to support a total of more than 10,000 million dollars of bank deposits. Yet with all that money available there was not a thing that we could do unless municipal, provincial or federal governments handed out a dole or started some form of public work. We know that the issue of securities by the Bank of Canada to the chartered banks will not of itself induce the banks to put money into circulation. Their answer was then, "We have got more money to lend than we can find good borrowers to borrow". That was their position so that part of your control is out. I think it is doubtful, Mr. Minister, that you have got the power even to precipitate a depression unless you do one thing. You can do it by doing one thing but it is not included in bank rate policy. You can do it in this way. You can take your cheques from your taxpayers and deposit them in the Bank of Canada, and if you hold them you can force every chartered bank to disgorge every dollar of Bank of Canada cash which it has. You can carry out that policy until you will force the chartered banks to call their loans and convert the proceeds into Bank of Canada cash which would mean the cancelling of the entire public debt of the dominion, but you cannot do it in any other way.

Hon. Mr. ILSLEY: Well, I do not want to do it particularly.

Hon. Mr. HANSON: I hope not.

Mr. McGEER: Mr. Towers has told us that the time may come if we move into boom conditions when we will have to stop that inflationary condition by exercising this bank rate policy. You know, stability is supposed to be the acme of sound monetary policy. We do not want booms and we do not want depressions, and by moving up the bank rate, by selling and by buying securities, your central bank is assumed to have the power to stabilize a reasonable rate of progress. Do you say that, if you moved into a boom condition such as you had in 1929, you would not take steps to prevent it going to the point of disastrous collapse? Maybe you want another boom. I do not, Mr. Minister. But I am telling you that you have no power under your legislation to stop it, and I think you should have that power. That is why we have offered these amendments. The Macmillan committee went a little bit further, and dealing with the bank rate policy, which includes the whole thing, it says this:—

221.—(iv) Bank rate policy is quite a proper instrument, not only for the correction of temporary disequilibrium in the international loan market, but also for regulating the pace of expansion and enterprise at home and for putting pressure on costs to accommodate themselves to changes in our relative situation or in the international price level. But it is only adequate by itself for such purposes within certain limits. When substantial changes in the level of our industrial costs are necessary to correspond to substantial changes in the value of money, changes in bank rate alone cannot hope to achieve all that is necessary. In such a case, however necessary it may be that bank rate policy should be employed to maintain the international value of our currency, some other supplementary means must be found to restore equilibrium. For consider how bank rate policy works out in such a case. Its efficacy depends in the first instance on reducing the profits of business men. When in the effort to minimize this result, output and employment are contracted, it depends on decreasing the amount of business profits and increasing unemployment up to whatever figure is necessary to cause business men either to decrease their costs by additional economies or to insist on, and their workers to accept, a reduction of wages. But public opinion does not easily acquiesce in such a process. And the reduction, if and when effected, will fall unequally and unfairly on those sections of the community who are least protected by contract, least able to defend themselves and often least able to afford the sacrifice.

Is that the condition you want to perpetuate? The Macmillan committee, examining the very powers that you say are your controls, made recommendations; and the amendments that we have offered are intended to put into effect in Canada the recommendations that the Macmillan committee have offered.

Mr. GRAHAM: Let me get that clear, Mr. McGeer. Are you supporting Mr. Slaght's amendment?

Mr. McGEER: Absolutely.

Mr. GRAHAM: But his amendment clearly presupposes that they leave the time deposits, the savings, to the banks as the medium through which the banks lend.

Mr. McGEER: There is nothing of that in the amendment that I see.

Hon. Mr. HANSON: Oh, yes. He limits it to time deposits.

Mr. GRAHAM: Yes. Your proposition is exactly the opposite.

Mr. McGEER: No. What you are confusing is this. I was discussing what I would do, in answer to a question from the Minister of Finance:

Mr. GRAHAM: Oh, I see.

Mr. McGEER: And I was discussing the inevitable result of budget balancing which, as indicated by Mr. Dunning, would be nationalization. But that argument had nothing to do with this amendment. That was merely incidental.

Mr. GRAHAM: No. But if we adopted Mr. Slaght's amendment and the result follows of leaving the deposits, you shut the door on ever adopting your suggestion that we take these and give them to the government.

Mr. McGEER: These other fellows might come in. However, I will discuss those amendments a little later on.* It is now 1 o'clock.

Hon. Mr. ILSLEY: Could you point out the specific part of the Macmillan report which you are following by your amendments?

Mr. McGEER: I beg your pardon, Mr. Ilsley?

Hon. Mr. ILSLEY: Could you point out the part of the Macmillan report which your amendments follow? You made the statement in your argument that they followed the Macmillan report.

Mr. McGEER: It is 1 o'clock. It will take me a little while to get them.

Hon. Mr. ILSLEY: It should not take very long.

Mr. MACDONALD (*Brantford*): Mr. Chairman, I feel we should know what we are going to do at future meetings of this committee. I refrained almost entirely this morning from asking any questions or from interrupting, although there were many occasions where I should like to have had more clarification. However, I think that we should get on with the bill.

Hon. Mr. HANSON: Hear, hear.

Mr. MACDONALD (*Brantford*): Surely we want to have all viewpoints on it, but we have been sitting here for I do not know how many days. This must be the fortieth meeting, possibly.

Mr. McGEER: If you had been here on time this morning, we would have finished by 1 o'clock.

Mr. MACDONALD (*Brantford*): It is somewhat difficult to do that when the house is sitting. But my point is that Mr. McGeer stated he thought he might take half an hour and you were generous enough, Mr. Chairman, to give him an hour; more than an hour has now elapsed. Are we going to have two more hours of similar discussion this afternoon, or are we going to have this question settled in a shorter time, have the vote and get on with the other sections of the bill? That is what I should like to know. I think we should do that; and I think,

Mr. Chairman, that other members of the committee agree. If Mr. McGeer will undertake to complete his case within fifteen minutes or half an hour, I think we should refrain from asking him questions, should let him present his case, and then have the vote. That is my opinion.

Mr. JAKES: Then we can ask questions at the end.

Hon. Mr. HANSON: You are then inviting more discussion. I think we ought to have the vote now.

Mr. FRASER (*Peterborough*): We certainly should.

Hon. Mr. HANSON: Question.

Mr. KINLEY: There is something wrong with a committee that cannot express its opinion.

Hon. Mr. HANSON: Hear, hear. Are we impotent?

Mr. McGEER: You have been that way for a long time.

Mr. MACDONALD (*Brantford*): I think it would be too drastic to take the vote now. I think we should take it this afternoon.

Mr. FRASER (*Peterborough*): Mr. Chairman, I think we should cut discussion on any one subject down to at least twenty minutes or half an hour. I do not think it should go on day after day.

Hon. Mr. HANSON: Question.

Mr. McGEER: There are a lot of people in the country who disagree with you.

Mr. KINLEY: It is so redundant.

Mr. FRASER (*Peterborough*): There might be a lot of people who disagree with me right here; but it is terrible when a man gets up and talks for an hour and a half or two hours at every day's meeting.

Hon. Mr. HANSON: For days.

Mr. FRASER (*Peterborough*): And rehashes what we have already gone over.

The CHAIRMAN: The committee stands adjourned until 4 o'clock this afternoon.

Mr. McGEER: I do not think it is rehashing what has already been gone over at all.

Mr. MACDONALD (*Brantford*): I would not say that.

Mr. McGEER: I do not think that is parliamentary.

The Committee adjourned at 1.05 p.m. to meet again at 4 p.m. this day.

AFTERNOON SESSION

The Committee resumed at 4.05 o'clock.

The CHAIRMAN: Gentlemen, I have a brief by Paul A. Fisher, President of the Halton County branch of the Federation of Agriculture. Is it the desire of the committee to have the brief printed in the transactions of the committee?

Mr. McNEVIN: I so move.

Mr. CLEAVER: I might add that copies will be available for members of the committee, and if after reading it over they wish to ask any questions they can be answered.

The CHAIRMAN: Mr. McGeer, I understand you will complete your statement in about half an hour?

Mr. McGEER: I hope so, Mr. Chairman. I will get through as rapidly as I can.

The CHAIRMAN: Well, remember that there are forty-nine other members of the committee.

Mr. McGEER: I appreciate that. At the close of the morning session the Minister of Finance asked me to indicate the sections of the Macmillan report which I thought justified the amendments which we propose.

Mr. GRAHAM: It would be better, if the minister is coming, to wait until he gets here before you do that.

The CHAIRMAN: I think Mr. McGeer can put the references on the record.

Mr. McGEER: Now, I should like to answer that question. After deciding that bank rate policy which depends upon its ability to reduce the profits of business and expand unemployment and had no power at all to alleviate—

The CHAIRMAN: You mean expand employment, not unemployment?

Mr. McGEER: To expand unemployment—that was the word used—to decrease the profits of business, to force unemployment and expand it, and it had no power after it had got into that position to alleviate it. The Macmillan report recommended at page 118 of the report, section 280: "The monetary system of this country must be a managed system."

The amendments that we propose indicate the division of public and private finance as one of the managerial limitations that parliament places, on the one hand, upon private banking which would then be confined to commercial banking—private banking institutions which would then be confined to straight commercial banking—and the public bank here owned by the people of Canada, the Bank of Canada, which would then have to finance government enterprise.

The report goes on to state: "It is not advisable or indeed practicable to regard our monetary system as an automatic system grinding out the right result by the operation of natural forces aided by a few maxims of general application and some well-worn rules of thumb."

That is all we have to-day in the way of controls, and the amendments propose to remedy that situation.

The report goes on to say: "The major objectives of a sound monetary policy, for example, of maintenance of the parity of foreign exchanges without unnecessary disturbance of domestic business, the avoidance of the credit cycle, and the stability of the price level, cannot be attained except by the constant exercise of knowledge, judgment and authority by individuals placed in a position of unchallengable independence, with great resources, and every technical device at their disposition."

Certainly these amendments propose to establish some of the devices that are necessary, and I want the committee to appreciate that while I argued away beyond these amendments, they are supported by everything that I have said.

Now, how can you get management of unchallengable independence unless the men responsible for the flow of the medium of exchange financing government, and who control it, have no interest whatever, either in the profit public borrowing produces or in the borrowing that a shortage of the medium of exchange in circulation compels? We allow a group of men to participate on two sides of the balance: our private banking monopoly thrives and prospers by lending money. When there is a shortage of money borrowers must go to them. Human nature being what it is, you should expect that very thing you have got when you entrust the economic bloodstream of the nation to a

monopolistic profit-making enterprise. You will expect your debts to rise; you will expect everywhere in government, in industry, in agriculture—everywhere you will expect to find that market controlled so that a shortage of money in circulation is maintained and unceasing pressure in favour of the lenders' market is sustained. You have got it and you are going on doing it, and you are going to go on doing it despite the fact that a former Minister of Finance told you that if you did you will eventually nationalize every bit of private enterprise in the country.

The Macmillan report recommended that the Bank of England be transferred into a public corporation. You will find that at page 240. We have done that. The monetary system must be a managed system. I have read that report to you at section 208.

Here is another device that the Macmillan Committee recommends: "The vicious circle is complete. The decline of new enterprise has reacted adversely on profits and prices, and the low level of profits and prices stands in the way of new enterprise. It is for this reason that some of us think that in the domestic field it may be necessary to invoke governmental enterprise to break the vicious circle." That is section 316.

Does anybody in this room for one minute think that without governmental enterprise, which means public works of municipalities, provincial governments, cities and federal government, that we have a chance in a million of putting the people who are going to be demobilized from war industry and war services to work in the post-war period? The best hope of a remedy lies in a monetary policy designed to increase the volume of purchasing power. These amendments provide we believe the means of increasing the volume of purchasing power without unnecessarily burdening the country with further unbalanced budgets and further unpayable interest-bearing public debts. That recommendation is on page 190 of the report.

The report goes on to state:—

- (5) It is not necessary that the volume of note issue (a fortiori, or the creation and issue of national bank credit) should continue to be regulated as it is now by reference to the amount of gold held in reserve. (Section 148).
- (6) Since the bankers as a whole under banking practice maintain a cash proportion of deposits of roughly 10 per cent of the cash held in reserve (i.e. legal tender paper money borrowed from the Bank of England or the Department of Finance in Canada) the bulk of the bank deposits arise out of the actions of the banks themselves, for by granting loans, allowing overdrafts and purchasing securities, a bank creates a credit in its books which is treated as the equivalent of a deposit of money. (Sections 71 to 74 inclusive).
- (7) The theory that governmental expenditure in the promotion of public enterprise and social service is restricted by the accumulated savings available for investment is erroneous. When governments distribute wages by financing public enterprise with national currency and credit, the volume of capital for investment is increased. (Section 47 of Addendum I, Page 203, and Section 24 of main report.)
- (8) If governments pursue an inflationary policy i.e. meet expenditures not out of revenue, but by the issue of paper currency (or the creation of credit in a national banking system), forces are set in motion increasing profits and wages and additional spending arises. (Section 24.)
- (9) Gold reserves are held to-day solely to meet temporary deficiencies in the balance of international payments. (Section 340.)

- (10) The circulating media consists overwhelmingly of paper money and bank deposits. It is this volume of purchasing power which directly affects the price level and not the amount of gold which may be held in reserve. (Section 45.)
- (11) There is nothing inherently impractical in the exercise of the government's power to deliberately control the price level. We should be ready to attempt the task and to gain experience by practice. (Section 210.)

There was an authority back in 1921 who said the control of the price level was possible, and we could have controlled the price level in 1939 or in any year of the depression if we had been willing to attempt the task and to gain experience as we proceeded: "international trade can and should be regulated and controlled by a deliberate management".

No, Mr. Chairman, there is nothing new in what we are proposing. Every bit of it is in the MacMillan report. I placed all before the Banking and Commerce Committee of 1934; and I say that we in Canada have done a long way toward the establishment of a new monetary system under which we could maintain the going concern activity of the dominion of Canada on an expanding stabilized progressive basis.

Now let me ask the members of the Progressive Conservative party who are on this committee; we have offered a plan, we have attempted a remedy; what have they to offer with their two leading monetary experts in this House, in the persons of the Hon. Mr. Hanson, a former chairman of the Banking and Commerce Committee, and Mr. Harry Jackman, the member for Rosedale; why, they have nothing to offer.

What about those Liberals who are opposed to this idea of admitting a monetary system, my friends Roy Graham, Kinley, Bruce McNevin and Hughes Cleaver; what have they to offer? Absolutely nothing; altogether, absolutely nothing. But, to go on; then, let me put it to the Department of Finance—

Mr. GRAHAM: Speaking for myself, I have had very little opportunity to offer any remedy in this committee.

Mr. McGEER: You conducted a complete examination of any witness that you wanted to take in hand.

Mr. McNEVIN: We never had a chance.

Mr. SLAGHT: Perhaps this is your chance.

The CHAIRMAN: There is not much time, Mr. Slaght, of hearing anything in this committee if we are going to report to the House before it adjourns.

Mr. SLAGHT: We have all the time in the world to hear any institution or individual who wants to come before us.

The CHAIRMAN: I said that we have not all the time in the world.

Mr. SLAGHT: Yes, we have.

The CHAIRMAN: I beg your pardon.

Mr. CLEAVER: Mr. McGeer, you were asking these questions; speaking for myself only, I am quite prepared to consider Mr. McGeer's suggestion or the suggestion of any member of this committee, but I cannot consider any suggestion until I know what the proposal is; and I would again like to ask Mr. McGeer—I put this question to him yesterday but I would like to ask it of him again—how much additional Bank of Canada currency does this proposal call for?

Mr. McGEER: Whatever will be required to put the people who are demobilized from industry and war services to work in satisfactory employment, whatever may be required to maintain or develop our foreign trade upon a sound basis, and whatever will be required to sustain the going concern

activity of the Dominion of Canada upon a reasonably prosperous and progressive, expanding basis.

Mr. CLEAVER: In the light of that explanation would you please now tell me what you think would be required in the light of those circumstances which you have mentioned?

Mr. McGEER: Well now, Mr. Chairman, I would be glad to repeat that—

Mr. CLEAVER: I am asking him to say in his opinion how many billions of dollars or millions of dollars he thinks all those different circumstances would require.

Mr. McGEER: I gave you an indication of the limits to which that might go by putting before the committee a reference to the report made by the unemployment insurance commission advising the council of the state of New York.

Mr. CLEAVER: I know, but is that your own opinion, Mr. McGeer; you have outlined what the problem is and you have stated that all this new money should be created to deal with it; I was just asking you what in your opinion is enough, so that we might be able to evaluate your proposal.

Mr. McGEER: In 1930 to 1939 we assumed that we could do the job with a budget of \$500,000,000; we assumed that that was the limit of what we could spend. We went into the war and we found that to put our people to work and developed the national income to about \$9 billion, and government expenditures rose progressively until they came to six thousand millions of dollars. Now, what proportion of that will have to continue to be spent to support a national income that will carry our present public debt and sustain the going concern activity of the nation is a matter that time alone can tell; whether it be two billion or three billion or four billion—yes, or five billion or six billion. I say that our monetary machinery must be such that it can carry that financial load.

Mr. CLEAVER: Am I correct in understanding then that you issue new Bank of Canada currency to the total amount of budgetary requirements in excess of the amount raised by taxation?

Mr. McGEER: That would depend on whatever the government of the day decided to do; that is, there are four ways by which you can get money; by taxation, borrowing—

Mr. CLEAVER: I can appreciate your proposal. You said whatever money the government decided to borrow. I am asking if you would be good enough to tell us your proposal.

Mr. McGEER: I have told you that, taxation, borrowing, and to make up the gap between the requirements and the amount raised that way by the issue of national currency for the purpose of balancing the budget.

Mr. FRASER (*Peterborough*): You would do that each year?

Mr. McGEER: Each year.

Mr. KINLEY: To hear you one would think that banking was the only function of a nation.

Mr. McGEER: It is the only function we are dealing with in this committee. If the committee were to deal with other things I would be glad to discuss them, but we happen to be here dealing with banking.

Mr. KINLEY: Do you suggest you can fool around with money and make a nation prosperous?

Mr. McGEER: I do not suggest you can fool around with money and make Canada prosperous, but I do suggest setting up a managed monetary system as recommended by the Macmillan committee is not fooling around with money. A man who talks that way has little conception of the importance of the work that this committee has before it.

MR. KINLEY:: Mr. Chairman, on a point of order—

MR. McGEER: Who is fooling around with money? Did I fool around with money when I was mayor of Vancouver?

THE CHAIRMAN: I do not think you did but there has been a lot of fooling around with words.

MR. KINLEY: I was going to say—

MR. McGEER: Of course, that is as unparliamentary as the interruption from the speaker, and the chairman has been guilty of that kind of offense on more than one occasion.

THE CHAIRMAN: I repeat there has been a lot of repetition of words.

MR. McGEER: That is not fooling around with words.

THE CHAIRMAN: Unnecessarily; we can each have our own opinion.

MR. KINLEY: All I was going to say, Mr. Chairman—and I do not want to be discourteous to my friend—is that I come here as a member with some experience in business all my life.

MR. McGEER: Do you think you are alone in that?

MR. KINLEY: He said that I had nothing to put before the committee. I try to do the sensible thing. The government has a bill here which the experts say is the right kind of legislation, and I cannot find very much wrong with it so there is really nothing to put forward. Insofar as having a misconception it seems to me if we had the time and could let the member for Vancouver-Burrard go he would talk himself into such absurdity that there would be no trouble about it at all, but unfortunately time is of the essence of things and we would like to get something done. When he overstates his case and then does not come to any conclusions, that leaves me in midstream; you get confused and frustrated and you must judge him by the few things he says which he overstates. When you do that you mark it down as a blank and you say no.

MR. McGEER: There will be more said on that score. I have, Mr. Chairman, a letter from the city of Vancouver, requesting me to take up with this committee and attempt to secure some way of providing finances for their post-war program. May I say to the committee that the mayors' conference of Canada appeared before the so-called Reconstruction committee and told that committee that there was an enormous program of civic works available and no means of financing it. Let me say also that some of the premiers of the provinces, particularly the prime minister for Manitoba, appeared before the Reconstruction committee, so-called, and also informed that committee that, while there was an enormous program of public works available in the province, there was no means of financing and no finances available—

MR. KINLEY: Let them start a bank then; that would do the trick.

MR. McGEER: —that would permit them to put that program of what we all recognize as needed public works into operation. When the Prime Minister introduced the resolution recommending the Sirois report he recognized a situation that threatens our whole federal structure. He said:—

We have, in short, ample indication of certain fundamental strains and weaknesses arising out of our present allocation of financial powers and governmental responsibilities, and if no attempt is made to remove them, the ill effects will not be confined to the sections where they now appear.

In these circumstances, we propose to appoint a royal commission of inquiry to investigate the whole system of taxation in the dominion; to study the division of financial powers and financial responsibilities between the dominion and the provinces; and to make recommendations as to what should be done to secure a more equitable and practical

division of the burden to enable all governments to function more effectively—and, I may add, more independently—within the spheres of their respective jurisdictions.

Up to the present time nothing has been done about that. There have been some war measure adjustments but nothing that will meet the situation when the provinces move to carry their full load of local responsibility, much of which has been suspended during the war.

Hon. Mr. ILSLEY: This government recommended the adoption of the Sirois report and was unable to get agreement from the provinces and it then made the best agreement it could which was a temporary agreement for the duration of the war.

Mr. McGEER: I quite agree. If these amendments are not acceptable which we believe will improve the financial strength of the governments of this country, the security of the monetary system, and the general economy of the nation, what then has the Department of Finance to offer with its galaxy of financial advisers and monetary experts? You know, we were not out of the depression when the war started and the conditions which now exist outside of war expenditures are apparently worse than they were in 1939. That is the situation we face. We have got more trained men, more productive capacity than we ever had before, and obviously a more limited market than we ever had before unless some device of national spending can be developed that will free us from the disaster that is inevitable if we go on any further with this practice of budgetary deficits.

Mr. KINLEY: Mr. McGeer, do you not think when the war is over money will be the cheapest thing there is because there is so much of it?

Mr. McGEER: I do not agree with you on that. I think very probably that may be so in some few corporations, but I think the taxation that has been levied—

Mr. KINLEY: People never saved like they have during this war. The general public never earned more and they are saving some of it. There is a lot of it in compulsory savings.

Mr. McGEER: In victory bonds?

Mr. KINLEY: Yes; look at the victory bonds. People hold victory bonds. They will come into circulation.

Mr. McGEER: You assume then, against the advice of Mr. Towers and against the advice of every man who has thought this thing out, that it is going to be an automatic recovery?

Mr. KINLEY: My idea is there will be a flood of money.

Mr. McGEER: Anybody who is going to depend on that is going to get the greatest disappointment that he has ever had in his life. Even if that were a reasonably justifiable hope every measure should be taken to guard against the consequences that will happen if that does not take place. I appreciate there are limitations and difficulties in a committee of this kind examining the monetary structure with a view to making fundamental changes, but I have a feeling that no one is satisfied at the moment that we have achieved by any means all the reforms, all the changes and all the improvements that can be made to our monetary system. I propose to move that the committee recommend to the government the appointment of a royal commission forthwith to consider whether and in what respects the banking institution and the monetary system may be modified, changed, extended or developed for the purpose of improving present methods of providing the federal, provincial, municipal and other local governments, corporations and citizens with a sufficient supply and an effective circulation of the medium of exchange required to sustain the going concern activity of the nation. I will give that as a notice of motion now. Everyone has the hope that our people—

The CHAIRMAN: Just a minute, Mr. McGeer. I am asking to what section you move that amendment.

Mr. McGEER: It is not to a section of the bill at all. I am moving it as a general motion in the committee.

The CHAIRMAN: A general motion?

Mr. McGEER: Yes.

Mr. KINLEY: How many motions can you have on the table of the committee at one time, Mr. Chairman?

Mr. McGEER: It is just notice of motion that I am filing.

The CHAIRMAN: It is notice of motion.

Mr. McGEER: I think we all have the hope that the people have sacrificed, served, fought and died to win a better world; and I think they are entitled not only to the promise of that better world but to a guarantee that it will come. Many of our finest young men went through that period of depression; and notwithstanding all the unemployment and misery—some of them, through no fault of their own, literally went from the dole to the army—they never lost their faith in their country or in our institutions. They are not going to come back from the army to the dole if I can have my way.

Mr. FRASER (*Northumberland*): Nor if the rest of us have our way.

Mr. McGEER: I agree. I think every man will agree that that is an objective that we are all anxious to attain.

Mr. McNEVIN: Nearly every member said so.

Mr. McGEER: Yes; but to do that and to guarantee it, you have to do something besides talk—

Mr. KINLEY: Yes, I think so.

Some hon. MEMBERS: Oh, oh.

Mr. McGEER:—which will provide the machinery and equipment to do that.

Mr. McNEVIN: You have to be sure you do not do something foolish.

Mr. FRASER (*Northumberland*): There is terrible irony in that remark, Mr. Chairman.

Mr. McGEER: Maybe there was. I was talking about changes necessary to obtain that result. I am not obstructing something that is intended for that purpose.

Mr. KINLEY: You remember these words: "I was well, I wanted to be better and here I am."

Mr. McGEER: That is the finest Tory doctrine that ever was uttered. Have you adopted it?

Mr. KINLEY: It is a quotation.

Mr. McGEER: That is the trouble with this capital, and particularly Capital Hill. Most of them here are standing still and looking backward; and the rest of them, with the exception of a very few, look forward to always standing still.

Mr. KINLEY: You are not modest at all, are you?

Mr. McGEER: No.

The CHAIRMAN: Gentlemen, it is twenty minutes to five.

Mr. McGEER: I want to say in conclusion, Mr. Chairman, how much I have appreciated the hearing which I have received from yourself and the committee. I know that people do not agree with the ideas that I have advanced. I know that any pioneer in any reform movement has to contend with that kind of thing. I feel very much like Columbus must have felt when, after studying the geography and mathematics of that day, he went and told a group

of great professors and scholars in Spain that he could sail around the world and go to India. One of them said, "If your theory is right, then there must be people in the Antipodes who walk upside down, where the trees grow upside down and where the rain falls upward." Well, we educated, intelligent people know that that kind of nonsense cannot happen. When you make a study of the monetary economy and come before a group of men who have made no study of it at all, you are bound to have difficulty in convincing them that changes are necessary and changes can be made to a monetary system that produces booms and depressions, an abundance of money in war time, a scarcity of money in peace time, a condition of want in the midst of plenty, and an unbalanced budget, a deficit budget in the Dominion of Canada for fourteen consecutive years, when every minister of finance has declared that it was essential to the health of the nation that the budget be balanced. Yes, a monetary system that piles up, by using bank credit deposits as a substitute for national currency, a burden of debt that threatens to wreck the democratic system in Canada, and which has brought practically every government, federal, provincial and municipal, into a state of bankruptcy, is in need of revision. These amendments that we offer are designed as steps that must be taken in the revision of our banking laws and our monetary system that are necessary to cure that situation.

MR. NOSEWORTHY: Mr. Chairman, may I ask Mr. McGeer a question?

SOME HON. MEMBERS: Carried.

MR. NOSEWORTHY: The stock argument that I have heard against the principle that Mr. McGeer has enunciated is, of course, that such an expansion of national currency would probably expand imports and depreciate the Canadian dollar. I presume he has in mind certain controls that would be necessary to offset that. I wonder if he would tell us just what they are?

MR. McGEER: Yes. I will file a copy of "The Conquest of Poverty" in which the whole thing is set out; that is, the control and regulation of foreign trade.

THE CHAIRMAN: Mr. Graham, I believe earlier in the session of the committee to-day you suggested that we examine, or that you would like to examine, one of the bankers?

MR. GRAHAM: That shows how time passes, Mr. Chairman. That was yesterday morning.

THE CHAIRMAN: Yesterday morning?

MR. GRAHAM: Yes. I still think it would be quite a proper procedure, in view of the type of thing we have heard.

THE CHAIRMAN: Have you someone in mind?

MR. GRAHAM: Anybody whom the bank care to suggest. Mr. Dobson maybe, of the Bank of Montreal?

MR. FRASER: Mr. Gardner.

MR. GRAHAM: I wonder, Mr. Chairman, if we could just shift the seating at the head table there to permit Mr. Gardner to be seen. The committee cannot see him.

THE CHAIRMAN: We will all move over.

MR. B. C. GARDNER, *General Manager Bank of Montreal*, called:

THE CHAIRMAN: Proceed, Mr. Graham. You had better find out the competence of the witness and that sort of thing.

MR. GRAHAM: Mr. Chairman, may I say that all I had in mind when I made my suggestion was this. The banks, who have been following the inquiry during all the days that we have been sitting, have no doubt had the opportunity of listening to Mr. Slaght's remarks and to study the amendments that

he has offered. In addition, since I made the suggestion yesterday morning, they have had the opportunity of listening for two days to Mr. McGeer. I think it would be wrong if this committee did not ask our bankers, those in charge of our chartered banks, to give us the benefit of their experience and to invite their fullest comment on the suggestions which have been made in this committee.

The WITNESS: Mr. Chairman, I am sure it must be evident to all that what is proposed in these amendments would, if accepted, make a most radical change in our banking system. Therefore I think it should be examined with the greatest care by everybody, not only by the committee but by the bankers, and particularly by the millions of customers of the banks who will be seriously affected by these proposals.

And this is the more important because I find that in advocating the proposals statements are made which are at variance with the proposals themselves. The first amendment would provide for banks to keep 100 per cent reserves against their demand deposit which means, of course, that for every dollar on deposit in the current account they would have to keep an equivalent amount in cash either in the Bank of Canada or Bank of Canada notes.

To obtain this result, according to my calculations, the bank would have to sell \$2,658,000,000 in securities to the Bank of Canada, which means that instead of an interest bearing security the banks would have a non-revenue producing asset represented by balances in the Bank of Canada. If we assume that the yield on these securities which we would sell would be $1\frac{1}{2}$ per cent the banks would be deprived of over \$39,000,000 of revenue, and as the surplus of our operating earnings over operating expenses, after taxes last year, was only \$29,000 it is clear that either the banks could not operate profitably or they would have to get revenue from some other sources. I am assuming in considering this proposal that it is an attempt to be of service to the people of Canada, and it is not a punitive measure that the committee wishes to impose upon the banks. There is some doubt about that. If the former assumption is correct I must point out what effect the proposal will have on the current account depositors. As it is now it is the balance which the customer maintains in his account free of interest which provides the recompense for the banking services which are provided for him without charge; in other words, the customer lends the bank his money without interest, in consideration of getting banking services. And let no one think that those banking services can be rendered without cost. Premises have to be provided, rents and rates paid, clerks and managers must be paid and offices of the banks have to be provided to do the work, and large amounts of stationery are required including cheque books and deposit slips, all of which are provided free. All these things cost money, and I may say incidentally to show the cost of this kind of thing, and the great expansion of banking since the war started, that the operating costs of the Bank of Montreal alone have increased by \$4,000,000 in 1943 as compared with 1939.

Mr. McGEER: How much of that is made up in superannuation payments?

The WITNESS: That is a figure I have not here. It is not a substantial part of it, because the superannuation is taken care of in large measure by the pension fund. But to put it another way, the reason we are able to obtain earnings from the current accounts deposits is that they leave this money free of interest. Now, then, if the bank is denied the opportunity of using the customers free balances, then it is obvious the banks cannot continue to provide those services without being paid for them, as Mr. Slaght has suggested.

Now, what is the effect of this so far as the customer is concerned? Let us not forget him. He is estopped from getting any return from his balance while on deposit in the bank in the current account. On the other hand, he

will be forced to pay for services in cash. It is true he will be able to draw out his cash, and this is what he will probably do, and deposit it in some other institution, other than a chartered bank, which is empowered to take deposits and which will pay him interest on those deposits. This will simply mean that by an arbitrary action of parliament a number of deposit-receiving institutions would benefit at the expense of the banks without the slightest advantage to the government; for these and other institutions will use these deposits in exactly the same way as the banks do, by buying government securities which have been forced out of the hands of the banks. But to the extent that the deposits remain in the banks and to the extent the depositors have to pay service charges, this proposal will add to the cost of banking of all customers who now receive those services free, as compensation for the balances lent to the banks. There will not be a customer able to deposit \$100 in a bank without paying a charge for it, because the service cannot be provided free when we have no earnings on the money.

I must now ask the indulgence of the committee to refer to some of the technical difficulties involved in this problem. First, let me tell the committee that corporations or individuals, both in business or otherwise, often keep large sums in the savings department. Now, when they are in the savings department, according to the condition of affairs that would exist if this resolution passed, we would be able to invest the money in the savings departments in interest bearing securities, and although there was no reference to it in the amendment as proposed, as a practical banker I may tell you this, that we will have to keep substantial cash reserves against our savings deposits.

You may say they will keep 10 per cent; my feeling is that this reserve will have to be higher for a reason I shall indicate to you later on. Now, then, when this man with one million dollars, say, in a savings department transfers that to current account what happens? Well, if we have got 20 per cent in reserve, that is Bank of Canada cash, and we have 80 per cent in investments, if that money goes into the current account we have to have 100 cents on the dollar behind every dollar of that million dollars. So what happens is that the bank would have to sell \$800,000 of securities in order to put that million dollars in cash behind that deposit. That, I think, is a practical difficulty. Technically speaking, the operation will be difficult and might not only involve the selling of securities, as I have indicated, but even the calling of loans in order to get cash to build up the 100 per cent reserve.

Now, why do I say this? Because on the basis of May, 1944, figures I have reached the following conclusions: the demand deposits of the banks on the 31st May were \$2,755,000,000; the savings deposits were \$2,094,000,000, making a total of \$4,849,000,000. Now, what are the cash requirements based on Mr. Slaght's proposal and based on my suggestion that we shall have to carry 20 per cent in cash reserves against our savings deposits? Well, the 100 per cent reserve against current deposits would be \$2,755,000,000. Twenty per cent against savings deposits would be \$419,000,000; that makes a total of \$3,174,000,000 of cash which the banks would have to have in the central bank. In addition how much cash have the banks got on hand? — \$516,000,000 — so that leaves a deficiency of — take \$516,000,000 from \$3,174,000,000 — of \$2,658,000,000 which we would have to get by the sale of securities.

Now then what securities do the banks hold. A figure of \$3,001,000,000 has been mentioned frequently but I have a figure here of \$3,011,000,000; of other securities, these various kinds, not dominion or provincial, \$363,000,000: Now that makes a total of \$3,374,000,000 of which \$2,658,000,000 would have to be sold to the Bank of Canada.

MR. FRASER (*Northumberland*): Or Mr. Gardner, you would have to call loans.

MR. GARDNER: We would have either to get it out of loans or securities;

I am assuming for the moment that we would have to take it out of securities. From this you will see that the securities which have to be sold to produce \$2,658,000,000, the figure which I mentioned in my previous remarks, would have a great effect on our earning power as it is calculated by the Inspector-General of banks that the dominion government securities out of that \$3,374,000,000 amounted to \$2,700,000,000. There will be nothing left to sell except provincial and sundry securities; and it is not always easy to secure a buyer at a moment's notice of large blocks of these securities. In some cases it might be easier to call loans and get them repaid. This I submit would be a most unsettling state of affairs.

Now, let me draw your attention to an allied difficulty of a somewhat similar category. At the time of the Victory loan campaigns large amounts were drawn out of the savings deposits and paid to the government who deposit the cheques in the banks on which the cheques are drawn. This involves a transfer from the savings accounts to government account, which is a current account. Now, the moment that transfer takes effect, as I have said, we have say 20 per cent reserve against savings and 80 per cent invested, we have got to get enough money to pay 100 cents on the dollar behind those funds that are now transferred to the dominion government. What does that involve? A sale of securities by the bank to the Bank of Canada to secure the necessary cash. This means at a time when the government are actively engaged in pushing the sale of Victory bonds the banks will be forced to be selling securities to the Bank of Canada. This will be a very unsettling state of affairs, I submit. Now, in order that you may not think that I have just concocted that up, I would like to give you an example of actual figures: in April of 1943 the time deposits were \$1,926,000,000. In May of 1943 the time deposits had shrunk to \$1,732,000,000; in other words a drop of \$194,000,000. Now, let us take a look at the demand deposits for the same months; in April of 1943 the demand deposits were \$2,057,000,000; in May of 1943, the next month, they had risen to \$2,420,000,000, an increase of \$363,000,000. Now, if the banks had been operating under the terms of Mr. Slaght's amendment what would the banks have been obliged to do to meet this situation? Requiring 100 per cent behind the demand deposits the banks would have to find some \$363,000,000 in Bank of Canada cash. How could it be done? Well, the savings banks deposits would have dropped \$194,000,000, which I have explained; and that would reduce the reserve requirement by 20 per cent; in other words 38.8 millions of dollars which will be available to go behind the current accounts. This leaves \$324,000,000 to be obtained which could only be got by the sale of securities; a difficult operation and most unsettling when a Victory loan campaign is underway.

I now wish to refer to the loaning activities which will be possible under this amendment. If it is true, as it has been maintained by Mr. Slaght and others of this committee, that every loan creates a deposit—I am not going to quarrel with that—then it can be said that if a bank should make a loan of \$1,000 and place that amount to the credit of the current account the bank would immediately have to deposit \$1,000 in the Bank of Canada in order to obtain a one hundred per cent reserve. This would have to be obtained either from excess reserves that are being held in the savings department or by the sale of securities or by the calling of loans; there is no other place it could come from. But I should like to refer to larger transactions, because the banks do engage in some large transactions. Suppose a province requires to borrow \$5,000,000 of cash; before the bank can do this it would have to secure \$5,000,000 in new cash. Now, what may we infer from this; that either excess reserves of cash must be held to provide for the making of loans, or securities will have to be sold to obtain the cash. If the former should prove to be the solution, that is holding much higher cash reserves against savings deposits, it means that there will be less to invest, less left over to invest out of savings deposits, and the results might be that we

would not be able to pay the present rates of interest which we are paying on time deposits. Only time and experience will answer that question. I do not know.

And now, Mr. Slaght has stated that the bank would be left with ample funds for loaning; namely, I think, \$2,100,000,000—

Mr. SLAGHT: \$2,500,000,000; that includes your capital and reserves; the exact figure, if you care to have it, is \$2,254,000,000.

Mr. GARDNER: Right. Now, these figures cannot be accepted by practical banker as the measure of the funds that we have to loan for the following reasons; it is my view, and for the reasons already given, the banks will require cash reserves against savings of at least 20 per cent. Well, I have the figure down here of \$2 billion and one and Mr. Slaght put in the figure of \$2,254,000,000, so that my figures on that basis may be a little bit out, but the principle remains the same. If we have to keep 20 per cent of that sum, let us say it is \$2½ billion, 20 per cent of that would be \$500,000,000 as a reserve, at least a half of the balance that remains would have to be kept in government securities readily realizable, so that if demands came upon us from depositors we would be able to meet them. Then that leaves an amount for loans of perhaps a billion three, maybe a billion four. I have been dealing with actual deposits apart from capital and reserve. This leaves \$1,174,000,000 for loans plus capital and reserve and less the amount of bank premises. As you know you cannot add capital, reserve and the bank premises. They are on different sides of the balance sheet. In other words, the total amount available for loans according to my calculation would be \$1,391,000,000. The amount of present loans in Canada at the end of May is \$1,258,000,000. This would leave a very narrow margin for new loans in the expanding economy which we hope may develop after the war. I will add one more word.

One or two members of the committee have suggested that the banks prefer to buy government securities rather than make loans. This is a matter on which I should be able to speak with some knowledge. Nothing could be further from the truth. I would like that to be clearly understood. I say this with the full knowledge of the policy of the bank with whose active management I am charged by the directors of the bank. The burden of proof is on those who make this charge and I would like to see them bring forward the evidence.

In my considered view the first amendment proposed, if enacted, would be a most disruptive one to our banking system. The second amendment is one that deals with lending to government agencies. It reads as follows, if I have got it correctly here.

"The banks shall not make loans to the government of the Dominion of Canada or any department thereof".

I should first like to say that the loans that the banks have made direct to the government have been made at the express request of the government. The banks have not sought them. In particular the government has come to the banks to borrow on treasury deposit certificates at 3/4 of 1 per cent to fill the gap between government expenditures and the money available from the sale of bonds to the public plus proceeds of taxes.

By Mr. Fraser (Northumberland):

Q. And taxes?—A. Yes, there is a gap. The banks were not anxious to make those loans. They did not ask for them, but if they had refused the government would perforce have had to borrow from the Bank of Canada with consequential expansion of the credit base when those funds were expended by the government. Borrowing from the chartered banks was the least harmful method of getting the funds.

If the committee deems it wise to lay this prohibition on the banks or on the government I for one shall not complain but none the less I consider it an unwise provision.

I should like to come to another point in connection with that amendment. Frequently I have noticed in what has been said before the committee that the \$2,700,000,000 of government securities the banks hold are almost invariably referred to as advances to the government. I am now merely asking for information. Does this second amendment mean that not only the banks cannot lend to the government or its agencies but cannot buy government securities? perhaps Mr. Slaght can clarify that point.

Mr. SLAGHT: Yes, certainly; it would mean you could not go to the government and purchase from the government government securities because that is simply lending to the government.

The WITNESS: We understand that, but what I mean to say is are we allowed to buy securities from the public?

Mr. SLAGHT: So far as I am concerned, yes.

Mr. McGEER: I would go so far as to stop that practice, too.

The WITNESS: We want to know what the amendment means, at least. That is the only point I am getting at.

By Mr. Slaght:

Q. You will take it from me, and I think you will agree, that the amendment as worded does not prevent your buying securities from the public. It is in express language an inhibition against lending to the government or any department of the government. There is no doubt about that.—A. I am glad to have that point cleared up because you so often used the word in referring to the \$2,700,000,000 that they were advances to the government.

Q. So they are.—A. Not at all; they are investments purchased from the public in large part.

Q. What happens? The government comes up to you and says, "We want some money". You say, "We are willing to lend it to you; give us security for it, a promissory note, a short term note or a bond". You say that is not lending money?—A. I do not think you should put words in my mouth. I am asking you for an explanation of just what this means, and in justification of that question I have said to you you have constantly used the phrase "advances by the banks to the government" and they do not consist wholly of advances, but are partly advances and partly investments bought from the public.

By Mr. Macdonald (Brantford):

Q. I understand that part of the \$2,700,000,000 in securities which the banks hold consists of securities, that is, government bonds which the banks have purchased from the public?—A. Certainly, correct.

Q. A substantial part?—A. I only brought that up just to clarify what the section means.

By Mr. Noseworthy:

Q. Can you indicate how large a part of the \$2,700,000,000 has been bought in securities from the public?—A. I have not got that figure before me.

By Mr. Slaght:

Q. Just before you leave that, if you do not mind, what form is the \$2,700,000,000 in? In other words, what kind of promise to pay do you hold from the Minister of Finance on the \$2,700,000,000? You do not hold any bonds at all, do you?—A. Who said that?

Q. Do you? The minister has said that you do not?—A. Certainly we hold bonds.

Hon. Mr. ILSLEY: I never said that.

By Mr. Slaght:

Q. In what form is the security that you hold from the Minister of Finance for the money you gave him?—A. Partly in bonds and partly in treasury deposit certificates.

Q. \$1,900,000,000 is in treasury certificates; you did not buy any of them from the public?—A. I did not quite get your question—oh, yes, treasury deposit certificates we bought direct from the government.

Q. Always; there are none of those floating around?—A. Treasury deposit certificates, none.

Q. If you would just tell us how much of that \$2,700,000,000 was on security furnished you from time to time by the government in return for moneys you advanced to the government—A. I think treasury deposit certificates are somewhere around \$800,000,000.

Q. Oh, no, it is more than that.

Mr. FRASER (*Northumberland*): At a very low rate of interest.

The WITNESS: Three quarters of 1 per cent.

By Mr. Slaght:

Q. It is very much more than that, the total you advanced to the government which brought these securities into your vault?—A. I have not the figures for all the banks. I say a large portion of it is bought from the public.

Mr. McGEER: Dr. Clark ought to be able to tell us.

The CHAIRMAN: All right, proceed.

Mr. McGEER: Cannot Dr. Clark tell us that figure?

The CHAIRMAN: Mr. Tompkins can only tell us very roughly.

Mr. McGEER: Surely the Deputy Minister of Finance knows what securities the government has issued to the bank of Canada in exchange for loans. If they do not know that they had better reorganize the department.

Dr. CLARK: Sometimes they sell bonds that they buy.

Mr. McGEER: How much have you advanced? If the banks have disposed of some on the open market that is another story but you know how much you have borrowed from the banks.

Mr. FRASER (*Northumberland*): On treasury certificates.

Mr. McGEER: On all securities.

Dr. CLARK: I could get you the figures of the amount we have borrowed from the banks directly but that would not give the total figure.

Mr. McGEER: Let us have the best figure you can give us.

Dr. CLARK: I cannot quote the figure right off the bat.

Mr. McGEER: You can give it to-morrow morning?

Dr. CLARK: Yes.

Mr. McGEER: Very well.

The WITNESS: I should like to make some comment if we are allowed to buy bonds from the public as to the situation that arises there. If we should buy a bond from a customer and the proceeds were put into a current account then we have immediately got to dig up, if the bond is a \$1,000 bond, \$1,000 in cash to put behind that current account under the terms of the first amendment.

Mr. SLAGHT: Go to the Bank of Canada; they will give it to you.

The WITNESS: That is exactly what we would have to do. Every time we bought a bond from the public we would have to turn around and sell it to the Bank of Canada in order to get cash to go behind the current account.

By Mr. Slaght:

Q. Certainly; the Bank of Canada would be financing the government.—A. I should like to say this about this proposal, that I regard it largely as experimental and untried, and it is proposed to put it in force in the middle of a war. I do not know how it would be viewed abroad. That is something we have to keep our eyes on, I think, and in addition if funds in the current accounts cannot be employed by the banks why there is no object in taking them.

By Mr. McGeer:

Q. Why abroad?—A. Because people watch our situation in Canada very closely to see how we are managing our financial affairs.

Q. Why?—A. You had better ask them. That is what they do.

Q. How does it affect us? Do you assume, after our being able to finance this war, the \$700,000,000 loan we made to England, the one billion dollars we gave to England and the one billion dollars we have given each year since to mutual aid, financing it ourselves, that we are still dependent on foreign money for the development of Canada?—A. My answer to that is that all this has been done under our present banking laws, not under anybody's proposals.

Q. The point I am dealing with is that we no longer have to adjust our internal economy to the dictates of international bankers abroad.—A. All right.

Q. We have at least found independence from that form of slavery.

Mr. FRASER (*Northumberland*): I would suggest that the great bulk of that money has been spent in Canada.

Mr. McGEER: Of course it has been spent in Canada. That is what we are talking about, spending money in Canada for the employment of Canadians in the building of Canada, independent of international bankers either in London or any other place.

Mr. SLAGHT: We financed it through our own Bank of Canada.

The CHAIRMAN: Mr. Graham?

Mr. GRAHAM: Having invited Mr. Gardner to give us the opinion of the banking fraternity through him on this matter, I suggest that we permit him to give his statement, and reserve any questions until he gets through.

Mr. SLAGHT: I am very glad to fall in with that suggestion; but do not forget that Mr. Gardner asked me questions and I answered them. I was invited by him to give him some information.

The WITNESS: That is right.

Mr. SLAGHT: Perhaps we have gone a little beyond the invitation.

Mr. McGEER: It was a matter of mutual aid, I think, Mr. Gardner.

The WITNESS: Thank you. I do not know whether it is proper for me to discuss the suggestion Mr. McGeer made about taking over the savings deposits.

Mr. SLAGHT: That is not involved in the amendment.

The WITNESS: It is not involved in the amendment, but if nobody wanted to—

The CHAIRMAN: I might say I think it would be quite proper. Mr. McGeer made the suggestion in regard to clause 59. Did you not do that, Mr. McGeer?

Mr. McGEER: I beg your pardon, Mr. Chairman?

The CHAIRMAN: You made the statement in discussing clause 59?

Mr. McGEER: No, no; in answer to the minister's question as to what I would have done—

The CHAIRMAN: While we were discussing section 59?

Mr. McGEER: —if I had been in his place. That left section 59 out for the time being.

Mr. NOSEWORTHY: I think we should hear Mr. Gardner on that.

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Make your statement, Mr. Gardner.

Mr. SLAGHT: Yes; let us hear it.

The WITNESS: I should like to make a statement because it has some very wide implications. If the government took over the savings accounts it would mean that instead of the banks owing 2 billion dollars odd to A, B, C and D, those 4,200,000 depositors, the money would be owed to the government; and a transfer would have to be made to the government, so that this money would then stand to the credit of the government in the chartered banks. Then automatically following upon Mr. Slaght's resolution—

By Mr. MacDonald (Brantford):

Q. I did not understand that. I did not understand the money would be owed to the government.—A. That is what I said. If they took them over, the government would have the deposits instead of the customers.

By Mr. McNevin:

Q. The government would owe the money lent to the depositors?—A. The government would then owe the money to the depositors, and the bank would owe the money to the government instead of to the customers.

Q. Yes.—A. Is that clear?

Q. Yes.—A. Well, then, we would be confronted then with putting a 100 per cent reserve in cash behind that 2 billion dollars which would be owed to the government; which means we would have to sell every security we have, and that would be the end, combined with Mr. Slaght's resolution, of the banking system in Canada. It would be completely wrecked.

By Mr. Noseworthy:

Q. It would be a lot more logical to take you over lock, stock and barrel? —A. I am not making any comment on that, Mr. Noseworthy. There is one other point that I might touch upon and that is the motion that has been put forward by Mr. McGeer. The wording of it is—let me find it.

The CHAIRMAN: Here it is.

The WITNESS: I have the wording here: "It shall be unlawful for any chartered bank to create or issue bank deposit credit in the place of and as a substitute for lawful currency and coinage of the Dominion of Canada unless the amount so created and issued has been authorized by a board consisting of the Governor of the Bank of Canada, the Minister of Finance, and the Prime Minister." That is very sketchy in its outline. It is very difficult to comment on this because we do not know how it would work. Would it be worked on a formula basis? Or would it be that every time the bank wanted to make an investment or make a loan, we would have to refer to this committee? I cannot comment very intelligently upon it because I do not know how it would be intended to work. Perhaps Mr. McGeer can enlighten us on that point.

Mr. McGEER: Would you like me to do that now?

The WITNESS: Yes. Go ahead.

Mr. McGEER: Well, take the situation that obtained in 1929. As I recall it, in 1926 the total of bank deposits was \$1,958,000,000. The stock boom came along and collapsed in 1929, when there was an increase in bank deposits of \$335,000,000.

The WITNESS: Right.

Mr. McGEER: Then in 1932, when the stock boom had collapsed and wrecked the whole economy of Canada, there was withdrawn from circulation, by a decrease in bank deposits, \$338,000,000.

The WITNESS: Yes.

Mr. McGEER: Indicating that at that time the rise and fall of bank credit money in Canada coincided with the line of the stock market boom and collapse. I would suggest that if at any time the banks, as a group, wanted to increase their expansion of credit—and they must increase their expansion of credit together. You would agree with that, would you not?

The WITNESS: I think so, yes.

Mr. McGEER: And if you wanted to increase money to finance a program which is expanding along that line, you would have to go to the Governor of the Bank of Canada and through that board and get an authorization for an increase of what you anticipated would be required. I think in the light of past experience that if it was for any such purposes as it was increased from 1926 to 1929, the board would not give you authority to do it. But the idea that you would have to get a sanction on every investment, every individual loan, of course, is not within the limit of that or within the reasonable interpretation of that proposed amendment.

The WITNESS: Mr. McGeer, in those years that you referred to we had no Bank of Canada. I suppose you agree with the theory that the Bank of Canada is the source of reserve funds and therefore has control of the bank expansion of credit.

Mr. McGEER: Yes.

The WITNESS: If that is so, what is the need for this new motion?

By Mr. Slaght:

Q. Did you get through, Mr. Gardner?—A. Yes, I am through.

Mr. SLAGHT: May I ask Mr. Gardner a very few questions? I cannot be here in the morning, Mr. Chairman.

The CHAIRMAN: Very well.

By Mr. Slaght:

Q. I have followed your very careful statement, and I think you should be complimented upon making it so clear and so accurate from the bankers' standpoint. I want to render you that compliment.—A. Thank you.

Q. Then, Mr. Gardner, following you through in the criticism of the two amendments that I have proposed, it seems to lead you, each time, up to the undesirable necessity of the private banks selling to the Bank of Canada the securities which they hold against the Bank of Canada. That is where it led you each time, I noticed, on two or three occasions.—A. Yes, that is right.

Q. That is the main objection you saw to it?—A. The main objection I saw to it was first being deprived of revenue.

Q. Of course, that is quite a proper view for you to put forward. Now, let us look at it from the taxpayers' standpoint and the standpoint of the Minister

of Finance. The government has issued this \$2,700,000,000 of securities which you have held—and you are going to tell us how much you bought direct— and the government, let us say, and the taxpayers of Canada, reach the conclusion they would like to pay their debt to the chartered banks and they walk over and proffer you \$2,700,000,000 in Bank of Canada currency—let me put in parenthesis, first amending section 59 by compelling you to keep 100 per cent. I understood you to tell this committee you would not mind receiving that, and it would rid you of being the holders of any government loans which you, apparently, reluctantly took and will be glad to get rid of?—A. That is another example of trying to put words in my mouth. I never used the words “getting rid of securities”.

Q. Let us take it a step at a time, if the god Thor will permit me to get into the record from you what the banks bought there—you had told us that you do not want these loans; you do not want to lend the money to the government, and you do not want to get the securities and lock them up in the vault; are we agreed on that?—A. No, we are not. What I have said is this—which I should add I thought was clear—that if the public of Canada will buy sufficient bonds when they are offered by the government it is a more desirable state of affairs than having them not subscribe sufficient so that it leaves a gap which necessitates the government borrowing from the Bank of Canada or some other source. It would be better for the public to buy all the bonds.

Q. You and I are absolutely agreed on that, that if in their wisdom—and they have exercised a good deal of it with the assistance of you bankers too as to how much the public of Canada could absorb in victory bonds and keep each loan successful—I agree with you fully that if the saturation point had been higher and all the borrowings could have been done from the people of Canada by way of victory bonds instead of finding the gap, I would have no complaint, and I think it might be a very proper course to follow. But you and I are agreed on that, sir—that is they found a gap; after taxing as high as they thought the people could stand and selling as great a quantity of victory bonds as they thought the people could stand there is a gap of \$2,700,000,000 that has cropped up and has had to be filled?—A. No, I do not think that is correct, because a lot of the bonds that came into the hands of the banks were subscribed and paid for by the public, and it was only when they got beyond—

Q. All right, you were going to give us that. Then, let me get the position you really want to have the committee get from you as bankers regarding these transactions. We will deal with it in reality as it was. They could not tax and they could not sell enough bonds so there was a gap they had to borrow from somebody?—A. Yes.

Q. Now, you were reluctant to lend it to them; is that correct?—A. No, it is not correct to say we were reluctant; it was the only course I could see available or the least harmful of the various courses that might have been open to the government.

Q. When you made a loan of, let us say, \$1,000,000 to the Minister of Finance he came over to the bank with the bond; what did you do by way of furnishing money?—A. We credited his account.

Q. You credited his account for the million dollars and you locked up the security—a million plus interest?—A. As a matter of fact, we locked it up in the Bank of Canada.

Q. It became your property?—A. Yes.

Q. But you did not have any more money of any kind or any less money of any kind, you made a bookkeeping entry at the outset of the transaction—I will come to what you had to do later—but at the outset of the transaction all you did was make a bookkeeping entry and receive the security; is that right?—A. Well, it is not quite complete.

Q. The first day, the very moment, just what did you do other than make a bookkeeping credit and receive the security—I mean the very first five minutes of the transaction?

Mr. GRAHAM: Mr. Chairman, may I suggest this as kindly as I can, and I think I speak for the majority of the members of this committee, that we are interested in hearing Mr. Gardner and not Mr. Slaght; so please permit Mr. Gardner to give answers to the questions asked by you.

Mr. SLAGHT: Thank you, Mr. Graham.

The WITNESS: I was going to say that the first thing we did was to see whether we had sufficient reserves in our hands to support an addition to our deposits of a million dollars.

By Mr. Slaght:

Q. Yes, you had to have 5 per cent and you had a practice of 10 per cent, so you did see about it—I was forgetting that—quite right. You saw about it that you had \$100,000 of reserve either in Bank of Canada cash or in credit with the Bank of Canada?—A. Right.

Q. On deposit; is that right?—A. Quite right.

Q. Now let us take the \$900,000 for which you got a security. What did you concern yourself about in regard to that?—A. I did not concern myself at all about it.

Q. So except for the concern about the \$100,000 and the \$1,000,000 the rest of it at the very outset of the transaction was a pen and ink entry in the books and then you had concluded a loan to the government and held a government security?—A. I do not like your reference to pen and ink, because when we put that money to the credit of the government we assumed the liability of paying it out in legal tender money.

Q. Of course you did.—A. Right. That is no light liability.

Q. No, indeed it is not. But having assumed a liability up to \$2,700,000, if the government asked you for the money you could not possibly pay them?—A. We have been able to do it for 127 years.

Q. That is only because only part of the people come along at one time, is it not?—A. No, it is because there is some skill in banking.

Q. Of course, there is skill in banking; I think there is a great deal.

Mr. McGEER: Some eighty-seven banks in those 127 years were unable to do that.

The WITNESS: I am not responsible for others, Mr. McGeer.

Mr. MACDONALD (*Brantford*): You have assets to meet the losses?

The WITNESS: We have always had.

By Mr. Slaght:

Q. You are the oldest bank—125 years old?—A. 127.

Q. That is before confederation. We all admire the Bank of Montreal, I am sure. Let me ask you this: if you are not permitted to lend to the government or departments of government and might have to let the Dominion of Canada pay her debt to you bankers, you would lose the revenue that we are pretty well agreed upon is about \$40,000,000 a year?—A. Yes.

Q. \$39,000,000. Now, do you think, if you had to find some other place, after the Bank of Canada handed you that large amount of cash, if you had to find some other borrowers for it, would you agree with me that we may look ahead in the next three or four years of expansion to the fact that free enterprise and private industry who are now so taxed that they have not much backlog, in my view, are likely to need to go to the banks to get the capital to

make sewing machines, refrigerators, motor cars, and what we refer to under the general heading of civilian goods—for which we expect and hope a tremendous increase in demand will have to be satisfied by the manufacturers? Can you go that far; that that is a hope we are entitled to believe will be realized?

Mr. FRASER (*Northumberland*): Why do you ask the witness a riddle?

Mr. SLAGHT: I beg your pardon?

Mr. FRASER (*Northumberland*): I say, why do you ask the witness to answer a riddle?

Mr. SLAGHT: Do you think that is a riddle?

Mr. FRASER: I think that is a riddle.

Mr. SLAGHT: And you do not think that after this war there will be an increase in the production of motor cars, refrigerators and civilian goods of all kinds; is that the pessimistic view you take of it?

Mr. FRASER: That is not a pessimistic attitude.

Mr. SLAGHT: We better hope your opinion is—

Mr. FRASER: I have a more optimistic attitude than you have because I know more about it and you don't realize it.

Mr. SLAGHT: Let me ask you, you are saying it is a riddle—

Mr. FRASER: I say the question you are asking the witness is a riddle.

Mr. SLAGHT: Riddle nothing, you will see that it is not a riddle.

Mr. FRASER: I am saying so.

Mr. SLAGHT: Mr. Gardner does not misunderstand me, Mr. Fraser.

Mr. FRASER: I do not think he understands you.

Mr. SLAGHT: You do not?

Mr. FRASER: You said the other day that nobody else in the place did.

Mr. SLAGHT: Did you? I do not think Mr. Gardner would say so.

Mr. GARDNER: What was your question, again?

Mr. SLAGHT: My question was this: can we as Canadian citizens in your view reasonably look forward after the war to an expansion in manufacturing and to an expansion in Canadian industry and a vast increase in the production of civilian goods in lieu of the great production of war supplies now going on?

Mr. GARDNER: Well, I certainly hope that will be a fact.

Mr. SLAGHT: Yes; and may I put it that it is not a riddle; am I putting it clearly when I say that we can not only make it a hope, we feel as Canadians that it is a reasonable expectation?

Mr. GARDNER: Yes, I do not see that there is any doubt about that.

Mr. SLAGHT: All right, now Mr. Fraser understands it.

The CHAIRMAN: Providing we succeed in passing the Bank Act.

Mr. SLAGHT: Pardon?

The CHAIRMAN: I put in a proviso; if we are able to pass the Bank Act.

Mr. SLAGHT: Well you are getting awfully close to it, Mr. Chairman.

The CHAIRMAN: Thank you.

Mr. FRASER (*Northumberland*): Thank God for that, that is another hope.

Mr. SLAGHT: If that be so, can you as a banker and I don't want to press this too far; but is this fair, that as bankers you may look forward to a share of additional loans to the industries of Canada in order to permit them vastly to expand their manufacturing facilities for peace time goods?

Mr. GARDNER: Yes, we look forward to it and we should welcome applicants as they come in.

Mr. NOSEWORTHY: Mr. Slaght, you told us a little while ago he would have nothing to lend.

Mr. SLAGHT: Oh yes, but Mr. Gardner appreciates I hope that under the plan I visualize I am going to give him \$2,500,000,000 of equivalent funds, savings funds—I am not restricting it to savings deposits, I am including capital and surplus or rest.

Mr. GARDNER: I have already indicated, Mr. Slaght, that I doubt if that would be sufficient.

Mr. SLAGHT: You think that it would not be sufficient?

Mr. GARDNER: Yes.

Mr. SLAGHT: May I remind you that the present loans outstanding on the 30th of April to all Canadian industry was \$962,000,000 only, the least they have had in fifteen years.

Mr. FRASER (*Northumberland*): Surely that is a result of government financing.

Mr. SLAGHT: Exactly; now you and I are working together at last, Mr. Fraser; as Mr. Fraser puts it, you are low outstanding loans to industry are largely, at least in part due to the fact that the government has stepped in and gives the enormous sums of government money to carry on the war industry because the task was too great for private industry to undertake.

Some Hon. MEMBERS: No, no.

Mr. SLAGHT: Well, I won't start on that, because that raises a controversy.

Mr. KINLEY: No, no; industry is going largely on its own to-day.

Mr. SLAGHT: That is, you say—

Mr. FRASER (*Northumberland*): I think I know as much about it as you do.

Mr. SLAGHT: Do you?

Mr. FRASER: Yes.

Mr. SLAGHT: Well, read the speech made a few months ago by Mr. Lane, President of the Canadian Manufacturers' Association—

Mr. KINLEY: I do not need to, I heard it.

Mr. SLAGHT: Then you ought to know better than to say that they have enough money on hand; either you are wrong or Mr. Lane raised a false issue in a speech which he made to the manufacturers and people of Canada, which I do not believe.

Mr. MAYHEW: I think it is fair to say that their inventories are not as large to-day, that they are low not only in the manufacturing industry but among the merchants generally so there would naturally be an enormous quantity of loans required with which to build up their stocks of raw material, loans will be required for that.

Mr. SLAGHT: That is what I am looking forward to and they will not be long in starting to replenish their stocks once Germany collapses; and then we hope to see the merchants being able to replenish their stocks because without the raw materials they cannot turn out sewing machines and motor cars; isn't that logical?

Mr. MAYHEW: The statement made by the President of our largest manufacturers' association was correct as far as industry was concerned.

Mr. McGEER: That is, that they have not got accumulated reserves and will require bank loans.

Mr. MAYHEW: I do not believe they have.

Mr. SLAGHT: Mr. Kinley said they did have.

Mr. KINLEY: I do not need to be corrected. I will say this, that industry in Canada is in a more fluid cash position than it has been for years, speaking generally.

Mr. SLAGHT: Then I suggest, Mr. Mayhew, that I agree with you, and you and Mr. Lane, the president of the manufacturers' association, are in direct opposition the one with the other.

Mr. MACDONALD (*Brantford*): Of course, Mr. Slaght, you will not have \$2,000,000,000 of savings, because under your proposed plan a large proportion of that is being taken over by the government. Mr. McGeer did not say just how much of it—but the proposal is, as I understand it, and I have been trying to follow the proceedings of this committee, as I understand it the proposal is that a large proportion, a large percentage of the savings accounts would be taken over by the government.

Mr. SLAGHT: Let me put this to you, Mr. Macdonald: I have made it abundantly clear, and Mr. McGeer made it abundantly clear; and if you read the resolution and the two amendments that we are talking about, under this amendment of Mr. McGeer's suggesting that the government take over savings deposits is not in it at all, neither are they authorized or empowered by either of these amendments so to do. Forget that when you vote on the amendment, because it cannot be done under either one of them. Mr. McGeer made it clear in the course of a general discussion on questions raised by the minister or someone there, that he was following general lines and he referred to that suggestion as one viewpoint that some day might have to be put into effect; but he told you himself and I told you myself at least three times that that is not involved in the two amendments that I have before the committee.

Mr. MACDONALD (*Brantford*): It has made it very confusing to me.

Mr. SLAGHT: Try and level it out to-night before you go to bed.

Mr. MACDONALD (*Brantford*): I will do my best. I tried to follow both you and Mr. McGeer very carefully. I thought you were at one in your views, but now apparently you are not.

Mr. McGEER: Oh, nonsense.

The CHAIRMAN: Order, please. Mr. Slaght, will you go on with your examination?

Mr. SLAGHT: Thank you, Mr. Chairman.

Mr. MACDONALD (*Brantford*): I would suggest that you go over and clarify the thing so that we will know where we are.

Mr. SLAGHT: Every other member of the committee understands it.

Mr. MACDONALD (*Brantford*): Several other members of the committee have asked me about it, and I have been asking them.

Mr. McGEER: Then you must have got a lot of information.

Mr. MACDONALD (*Brantford*): I could not get it; I assumed their position was similar to mine.

Mr. NOSEWORTHY: Mr. McGeer does not want you to.

Mr. KINLEY: With Mr. Slaght's permission; I would like to refer to the amount of victory bonds which have been bought in Canada during the last five years by industries. To me that would indicate that they have considerable reserves. And, mark you, I have been listening to a lot of the talk about industry finances and I think it is largely argument for the purpose of accentuating the burden of income tax.

The CHAIRMAN: Proceed, Mr. Slaght. We want to pass the remaining section of the bill this evening, so proceed as fast as you can.

Mr. FRASER (*Northumberland*): You are an optimist, Mr. Chairman.

Mr. SLAGHT: Well, this government has conducted the business of production in this war as far as possible so as to prevent industry from making

excessive profits and I think that they have done a mighty good job. Industry is on its marrow bones, according to Mr. Lane, as far as being able to increase their plants, go into greater production and purchase more raw material because the excess profits law has kept them right down and it has not even taken care of obsolescence and attrition in the plants.

Mr. KINLEY: Forget it.

Mr. SLAGHT: You say forget it—

Mr. KINLEY: The budget which will be passed now will help them in the future.

Mr. SLAGHT: It is Kinley versus Lane, and I will leave it at that. Then, Mr. Gardner, I will not trouble you much further.

The CHAIRMAN: Order, please.

By Mr. Slaght:

Q. Bearing in mind what Mr. Fraser and I are agreed upon—and I think perhaps all the committee—that owing to the great necessity for manufacturing government business, and the government having intervened, your loans to industry are at a very low ebb, \$962,000,000 just now?—A. I think the figure is about \$1,258,000,000.

Q. I cannot get that. I took April 30.—A. I was dealing with May.

Q. Take April and see if I am right. You add \$909,000,000 to 40 something.—A. I have not got April here.

Mr. JACKMAN: May I ask a question in that regard? Would the witness say whether or not business is using less banking credit, or credit through the government, working capital, than it did before the war? Is business using less borrowed working capital now? When I say "borrowed" I use that term rather extensively to mean expansion through the government. Is business using less borrowed working capital now than it was before the war to handle a greatly increased volume of business? What I am getting at is, it has been found by the government who are providing employment for a great number of people now in war industries that it is cheaper to finance companies which are providing munitions of war by borrowing from the banks and from the people at victory loan rates, or at $\frac{3}{4}$ of 1 per cent from the banks, rather than to have industry itself borrow from the banks directly or through bond issues? In other words, credit is being used by business but it is being given to them directly by the government rather than through the banks or issuing their own bonds, and probably to a greater extent than in 1939? Is that not a fact?

The WITNESS: There is no question that the government have injected a large amount of money both into fixed capital and liquid capital during the war.

Mr. JACKMAN: So that the total now being used by industry is probably greater than it was in 1939, and when the government gets out of business, as I sincerely hope it will, these companies will have to maintain a somewhat similar volume, or a greater volume and must go to the banks and deal directly with them rather than through the government.

Mr. SLAGHT: I think the witness agrees with you and so do I.

The WITNESS: I do not agree altogether. I think that is a matter of statistical examination.

By Mr. Slaght:

Q. Let it be so, but I just want to have you check for me this statistical report of the Bank of Canada for April-May, and their figures are actually 042.867, and 053. That is for April. That makes \$962,000,000; is that right?—A. That is right.

Q. Then, Mr. Gardner, having checked with me that the outstanding loans to industry by all the banks on the 30th of April, 1944, were \$962,000,000 we are agreed that is a low ebb, a low position?—A. Yes, it is low.

Q. You have been kind enough to say that in your view as private industry comes back more into the field of making civilian goods more loans will be made by the banks to private industry?—A. That is what we hope.

Q. You said it was better than a hope.

The CHAIRMAN: I wonder if we may have the figures for May put on the record.

Mr. SLAGHT: I have not got them.

The CHAIRMAN: Mr. Tompkins has them.

Mr. TOMPKINS: I understand Mr. Gardner mentioned the May total. Was it \$1,200,000,000 odd?

The WITNESS: \$1,258,000,000.

Mr. TOMPKINS: That is correct.

Mr. SLAGHT: How do you make that up? Is it in call loans?

Mr. TOMPKINS: If I may put it on the record it consists of call loans, \$81,000,000; ordinary current loans, \$1,117,000,000; loans to provincial governments, \$9,000,000; loans to municipalities, \$49,000,000; non-current loans, \$2,000,000, adding up to \$1,258,000,000.

By Mr. Slaght:

Q. Now then, are we beginning to go up a little as the government is to some extent receding from industry?—A. I do not think that is a correct deduction. There is probably a good deal of loans there against victory loan bonds that have been purchased.

Q. That may account for that. Would you say I was too high in suggesting that in the two years after Germany collapses and the European war ends that we could look forward reasonably to an expansion of half a billion dollars as money required by industry in the great transposition from wartime factories and industry to peacetime?—A. I do not like to enter into the realm of prophecy but I should say we would look forward to a reasonable expansion of bank loans.

Mr. MACDONALD (*Brantford*): Your savings deposits may increase in the meantime.

By Mr. Slaght:

Q. I will not press it. You say a reasonable expansion and I have taken \$500,000,000 as a reasonable expansion. If so, you might loan it at 5 per cent—what are you lending at now, 4½, 5 and 6?—A. Chiefly 5.

Q. I was taking 5 and I am not far out. If you get an expansion of \$500,000,000 of that character that would be \$25,000,000 increased revenue?—A. That is right.

Q. And that would at least help the shock and loss of your \$39,000,000 or \$40,000,000 that you are now enjoying as revenue from government securities?—A. That is in the realm of chance, probability.

Q. Chance and probability, of course it is, but your bank has never missed a dividend in fifty years, has it?—A. You are not going to condemn good management?

Q. I am going to commend it.—A. That is splendid.

Q. Am I right you have never missed a dividend in fifty years?—A. That is right.

Q. All through the worst years of the depression the Bank of Montreal was paying what, 8, 9 or 10?—A. Well, it is on the record.

Q. I will not bother with it. I thank you, Mr. Gardner; that is all.

Some Hon. MEMBERS: Question.

Mr. ROSS: I want to ask Mr. Gardner a question.

The CHAIRMAN: Mr. Cleaver has the floor.

By Mr. Cleaver:

Q. Mr. Slaght opened up a discussion and asked some questions regarding what would happen if your bank should buy a million dollars of Dominion of Canada bonds, I believe. He asked as to what liabilities, and so on, were incurred and what was done by the bank at the actual moment of the purchase. For some reason best known to himself he did not follow through on the transaction, and I think he rather left the committee with the impression, or endeavoured to, that the banks simply made a bookkeeping entry for the million dollars. I would like to ask you to be good enough to follow the transaction through to its conclusion. You incur a million dollars of liabilities to a depositor?—A. Right.

Q. And as soon as that depositor would start issuing cheques on that deposit account those cheques would come into some bank for payment?—A. Right.

Q. If a cheque for wages should come into the Bank of Toronto for payment the Bank of Toronto, I presume, would pay that cheque by Bank of Toronto notes, and on the same day or the next day that cheque would go to the clearing house and what would your bank have to do with that cheque?—A. We would settle it by Bank of Canada cash or reducing our Bank of Canada balance.

Mr. SLAGHT: I can shorten it for you by saying that following it along—and I intended to but I wanted to get out of the way—the ten banks amongst them would have to service the million dollars and continue to service that because it is that much new money in existence. Nobody has ever run away from that.

Mr. CLEAVER: I suggest to you, Mr. Slaght, that the bank making the loan had to make good every dollar of that deposit as and when it was drawn out.

Mr. SLAGHT: Certainly.

Mr. CLEAVER: There is no fountain pen money about that.

By Mr. Cleaver:

Q. The suggestion has been repeatedly made in this committee that the banks can create fabulous amounts of credit by simply making fountain pen entries, book entries— —A. If you would like—

Q. I just want to ask a question or two in that regard. The liabilities of the banks, in the main, are to make good to their depositors every dollar of money which they receive in deposits. Is that not correct?—A. Right.

Q. And to make good in the clearing every dollar of bank notes issued by the different individual banks?—A. Right.

Q. And then on the other side of the picture, you hold in assets securities which you have purchased with your depositors' money and you hold also on the asset side of the ledger promises to pay with respect to loans which you have made of the depositors' money. Has your bank at any time, on the credit side of its ledger, fabulous amounts, or any amount, in fact, in excess of your liabilities plus the profit you have earned?—A. No.

Q. So that all of this talk about the banks' creating fabulous sums of money through making bookkeeping entries is wholly inaccurate?

Mr. JAKES: What is the point of that?

Mr. CLEAVER: What is the point of making inaccurate statements?

Mr. JAKES: To mislead the public?

Mr. CLEAVER: I think perhaps the statements were made earnestly and sincerely.

Mr. JAKES: Are you prepared to deny—

Mr. CLEAVER: But I say—

The CHAIRMAN: Order, please; one at a time.

Mr. JAKES: I want to make this clear. Are you prepared to deny the creation of money by the banks?

Mr. CLEAVER: Here is what I am prepared to deny, Mr. Jaques, and every bank statement will prove the correctness of my denial. I say that no bank creates any credit or any money or anything of value without assuming a corresponding liability.

Mr. JACKMAN: That is right.

Mr. JAKES: I never said they did not.

The WITNESS: That is quite correct, Mr. Cleaver.

Mr. McGEER: That is the thing we complain of, this debt-dealing racket.

Mr. CLEAVER: I now come to this question of reserve against deposits.

The CHAIRMAN: No interference, please, Mr. McGeer.

Mr. CLEAVER: It has been repeatedly urged in this committee that a bank, just as soon as it gets some Bank of Canada cash, can immediately blow that up and expand it ten times.

Mr. JAKES: Twenty times.

By Mr. Cleaver:

Q. And the inference is quite clear that, in doing that, the banks make fabulous profits. Now, Mr. Gardner, does your bank desire to obtain Bank of Canada cash in excess of its needs? Does your bank make any profit by holding reserves against deposits?—A. It certainly does not. That is what I am arguing about on this 100 per cent reserve. We would get too much Bank of Canada cash and would not be able to do anything with it.

Q. No. And if you got Bank of Canada cash in your hands the only thing you could do with it is go to the Bank of Canada or elsewhere and buy security with it?—A. Yes; or make loans, of course.

Some hon. MEMBERS: Question.

Mr. ROSS (*St. Paul's*): I want to ask Mr. Gardner a question.

The CHAIRMAN: Mr. Ross has the floor.

Mr. ROSS (*St. Paul's*): I want to know the effect of this proposed amendment of Mr. Slaght's, in this way. Would a one hundred per cent cash reserve requirement have the effect of greatly diminishing the amount of available money in the dominion?

Mr. SLAGHT: You will have to tell him what you mean by money, Mr. Ross.

Mr. GRAHAM: He says "What do you mean by money?"

Mr. ROSS (*St. Paul's*): Cash.

The WITNESS: I think it would definitely restrict the lending power of the banks and also their ability to purchase securities, which naturally adds to the amount of currency or medium of exchange which is in existence.

Mr. FRASER (*Northumberland*): And thus restricts business.

Some hon. MEMBERS: Question.

Mr. TUCKER: Before any question is put, I should like to know what the questions is.

The CHAIRMAN: We will read it.

Mr. FRASER (*Northumberland*): Question.

Mr. McGEER: I want to examine this witness. I mean to say, surely we are not going to have this banker come on and go away as Mr. Wedd went away. I have several questions I want to ask. It will take me some considerable time to examine this witness.

Some hon. MEMBERS: Question.

Mr. McGEER: Surely I am going to be allowed to examine him.

Mr. FRASER (*Northumberland*): It is 6 o'clock.

Mr. McGEER: It is 6 o'clock now. We had Mr. Wedd and we had Mr. Towers. Just the minute they make their statements, then away they go.

The CHAIRMAN: Oh, no, no, Mr. McGeer. Mr. Gardner has been here answering questions for some time.

Mr. McGEER: This is the first time he has been here.

Mr. SLAGHT: Mr. Chairman, may I have the indulgence from you to make this statement. I cannot be here to-morrow. The amendments that I have proposed will doubtless be voted upon to-morrow. I should like to be permitted, as a courtesy, to record the fact that if I had been able to be here I would have voted for both the amendments that I have proposed.

The CHAIRMAN: Is it the pleasure of the committee to sit tonight or to adjourn until tomorrow morning?

Mr. McGEER: Adjourn until tomorrow morning.

The CHAIRMAN: What is the pleasure of the committee?

Mr. McGEER: I move that we adjourn until tomorrow morning.

Mr. CLEAVER: Let us sit at 8 o'clock tonight.

Some Hon. MEMBERS: No.

Mr. FRASER (*Peterborough*): Let us finish it up now. Let us have the vote now and clear it up.

The CHAIRMAN: Mr. McGeer has certain questions he wishes to ask the witness. Will it take much time, Mr. McGeer?

Mr. McGEER: It will take some time; and I have been on the floor all day, and do not see any reason why I should sit after 6 o'clock.

Mr. FRASER (*Peterborough*): Question.

The CHAIRMAN: Are you ready for the question?

Some Hon. MEMBERS: Yes.

Mr. McGEER: No. I want to examine this witness.

Mr. FRASER (*Northumberland*): Nobody is going to change anybody's mind.

Mr. McGEER: You cannot move the previous question.

The CHAIRMAN: I beg your pardon, Mr. McGeer?

Mr. McGEER: You cannot put the question while the witness is under examination.

The CHAIRMAN: Mr. Gardner has finished.

Mr. McGEER: No. I want to examine Mr. Gardner.

The CHAIRMAN: Suppose we sit tonight at 8 o'clock.

Mr. CLEAVER: 8 o'clock tonight.

The CHAIRMAN: All in favour of sitting tonight at 8 o'clock?

Hon. Mr. ILSLEY: Could you make it a little later? It would be inconvenient for me to be here at that time.

The CHAIRMAN: 8.30, then. Those opposed to sitting at 8.30 please raise their hands? Then we will sit at 8.30 tonight.

The Committee adjourned at 6.05 p.m. to meet again at 8.30 p.m. this day.

EVENING SESSION

The Committee resumed at 8.30 o'clock p.m.

B. C. GARDNER, recalled.

The CHAIRMAN: Mr. McGeer, I believe you have the floor.

By Mr. McGeer:

Q. Mr. Gardner, just to start off, as you know this is the first time the Banking and Commerce Committee has convened to review the operations of the chartered banks since the inauguration of the Bank of Canada. That was a matter of very substantial controversy when the idea was first mooted. Now, in the light of the past ten years' experience what do you think of the Bank of Canada as an institution in relation to the banking services of the dominion as a whole?—A. I think it is a very necessary adjunct. We could not have done without it.

Q. We could not have done without it, and we have used it to great advantage in financing the war?—A. Yes.

Q. And you know that in 1934 the bankers were unanimously opposed to the establishment of that organization?—A. That is, all you had here.

Q. I quote from a speech made by your predecessor, Mr. Jackson Dodds, and he said this: "It will be seen from the foregoing that a central bank, as its name implies, is virtually a bankers' bank and does not serve the public directly. That being so, why then is there unanimity on the part of the bankers in Canada in expressing opposition to the establishment of such an institution?" That was Mr. Jackson Dodds' statement in a speech that was published in pamphlet form—published under the title of Banking and Currency, and issued by the Bank of Montreal?—A. You would not expect me to say very much about a speech made by my former chief, would you?

Q. He was speaking as the President of the Canadian Bankers Association at that time?—A. Quite so.

Q. That was the opinion. So the bankers were wrong in that regard—that is your admission today?—A. Well, that takes in a lot of territory, Mr. McGeer.

Q. You just told me we could not get along without it?—A. That is right.

Q. That it performed a valuable service?—A. Quite so.

Q. That it had done a great service in the war; and yet in 1934 the bankers of Canada were unanimously opposed to it?—A. That is what the speech says.

Q. And you do not disagree with that?—A. I do not know the opinion of all the bankers in Canada in 1934.

Q. Apparently Mr. Jackson Dodds did at that time?—A. I do not criticize—

Q. You do not think he would have said it if he had not reasonable grounds?—A. No, I am sure he thought that correct.

Q. That was widely circulated; it was part of the propaganda against the Bank of Canada; you know that?—A. Yes, I know that.

Q. And it was issued by your bank—the Bank of Montreal—paid for by your bank and circulated as propaganda against the establishment of the Bank of Canada?—A. Yes, but time marches on.

Q. Time marches on. "Certainly," says Mr. Jackson Dodds, "the establishment of a central bank in Canada would have no effect on world prices and would only be an added expense to the country at large." You certainly do not agree with that now, do you?—A. No. I do not know what effect it has on world prices.

Q. He says all it would mean would be an added expense to the country?—
A. I am not responsible for this statement.

Q. You do not agree with that; and if Mr. Jackson Dodds as president of the bankers association and General Manager of the Bank of Montreal made that statement at that time he was hopelessly wrong; you will agree with that, won't you?—A. I prefer not to make any criticism.

Q. Now, speaking as a taxpayer, do you think it is good business for the government of Canada to have financed \$1,400,000,000 worth of securities through its own Bank of Canada?—A. Well, I would rather not tie it in with the tax question.

Q. I happen to be representing the taxpayers and you are one of them.—
A. I think that is a practical way of getting these finances rolling.

Q. And from the point of view of the economy of Canada, and from the point of view of the taxpayers, it is about the cheapest way possible to finance that portion?—A. I think it was a very proper procedure, yes.

Q. And it was the cheapest way by which the dominion government could get that amount of money?—A. That involves a good deal, Mr. McGeer, but I think it was a proper procedure.

Q. A sound procedure?—A. To get the financial situation really rolling for war production.

Q. Now, if it was a good and proper procedure for the \$1,400,000,000 of securities, why would it not be a sound and proper procedure for more?—A. Oh, that is where the question comes in—where is the ceiling? I do not know. Perhaps you do.

Q. Let me put one ceiling to you. Let me assume that instead of borrowing from the banks they had borrowed the money from the Bank of Canada, do you think the Bank of Canada could have carried the \$2,700,000,000 of securities that your bank financed?—A. Not without some serious repercussions on the whole financial set-up.

Q. Then let me have from you what those serious repercussions would be?—
A. Well, we have been over it several times. That puts more cash reserves in the hands of the chartered banks and we know that leads to a big expansion of credit.

Q. Yes; but you told us this afternoon that issuing Bank of Canada cash to you was of no value unless you got borrowers?—A. I do not recall having said that, Mr. McGeer.

Q. I see. Do you recall the situation in 1936, 1937 and 1938—yes, in 1932, 1933, 1934 and 1935, where there was an abundance of cash reserves and every banker in the country said: We have now more money than we can find borrowers to take it; is not that correct?

The WITNESS: Yes, that is quite correct.

Mr. McGEER: Well then does this not naturally follow that if good borrowers are not available it does not matter how much cash reserves you have in the bank, you will not expand credit?

The WITNESS: The fact of the matter is if the people do not want to spend their money, it is not possible to make them, but that does not prevent the bank from using the funds they have to buy securities.

Mr. McGEER: But if the securities are for sale.

The WITNESS: Well, they practically always are, at a price.

Mr. McGEER: Yes, at a price. Now, where would you buy the securities if the government is financing its own, say if the government is not issuing any securities.

The WITNESS: What do you mean, if the government is not issuing any securities; I do not understand that.

Mr. McGEER: You don't? Well, when the government exchanges its securities with the Bank of Canada for cash the Bank of Canada has the securities.

The WITNESS: Yes, that is right.

Mr. McGEER: And if it is the policy of the government to finance through the Bank of Canada and not outside of the Bank of Canada then it would be the policy of the Bank of Canada to hold those securities, would it not?

The WITNESS: I expect so, yes.

Mr. McGEER: So that there would not be any issue of securities by the government.

The WITNESS: Of course there are lots of securities outstanding already, Mr. McGeer.

Mr. McGEER: And you assume that during wartime people would come in and sell securities to the banks?

The WITNESS: I do not assume that, it goes on every day.

By Mr. McGeer:

Q. Well then, if you do agree that the danger would be in the banks efforts to expand its credit on a reserve basis?—A. Yes, I do.

Q. On whatever basis the bank could get it, up to ten to one, isn't that right?—A. That is right.

Q. And that quite irrespective of what the effect would be upon the national economy, whether it would be inflationary or otherwise.—A. I do not think that is quite a fair way of putting the question at all, because we still must recall that the Bank of Canada controls the cash reserves of the banks and therefore the credit volume which the banks are able to build up.

Q. Well, let me ask you this question; what is the best money that we have in Canada to-day?—A. I do not like to cast any reflections on our own notes, but legal tender money is Bank of Canada cash.

Q. Bank of Canada cash is the finest money we have in the dominion; and it comes off the printing press and there is no gold behind it.—A. No, there is no gold.

Q. It is what Hon. Mr. Dunning calls a straight managed paper standard.—A. That is what it is inconvertible.

Q. Now when the Bank of Canada gets to the bank note company who prints the paper of Bank of Canada ten dollar bills the Bank of Canada can buy \$10 worth of bonds with it, can it not?—A. Yes.

Q. Can it buy any more than ten dollars worth of bonds, with that ten dollar bill?—A. I think not.

Q. Now when you get a bill how many bonds do you buy with it?—A. Well, I buy ten dollars worth of bonds with it.

Q. And you could issue credit to buy nine others?—A. On no, I cannot do that, because there are too many other factors which enter into it to accept that as a statement.

Q. But you can increase your cash reserve of \$10 to nine times its buying power with bank deposit money; surely the fact is, Mr. Gardner, that the Bank of Canada bill which is worth \$10 to the Bank of Canada comes to you on a credit basis it is expanded ten times that amount.—A. I do not think you can take these isolated transactions; you must relate the whole volume of bank credit to the amount of cash reserves.

Q. Yes, but you do agree that you increase your purchase of bonds up to that amount?—A. I say the banking system as a whole can.

Q. Well, we are dealing with the system as a whole. Can you tell me what possible justification there can be for the government to create its own bank and then establish another banking system; why two banks when the government's money is less valuable to the national bank than it is to the private bankers? You agree with this statement of Mr. Graham Towers; that the government can find money in these ways, by taxation, by borrowing the savings of the people, or with the expansion of monetary policy, that is borrowing which creates additional money in the process. Now, you agree with that, do you?
—A. Yes.

Q. Now at page 77 of the 1939 report of the Banking and Commerce Committee I further examined Mr. Towers and he said:—

I said there were three ways by which a government which wanted to spend money could obtain it. One was by taxation. The other was by borrowing the savings of the people. The third was by some form of inflation activity, either by borrowing through the operation of an easy money policy or by the actual issue of currency; the third form was, in effect, a currency creation form as distinct from form number two, which is borrowing the savings of the people.

or through some type of inflation activity, either by borrowing through the operation of an easy money policy or by the actual issue of currency—that makes a fourth.

A. Yes.

Q. Then at page 76 in the same examination:—

Mr. McGeer: Am I right in saying that a bank deposit can be created in this way? A banker can purchase a dominion government bond by accepting from the government, we will say, a bond for \$1,000 and giving to the government a deposit in the bank of \$1,000?

Mr. Towers: Yes.

Mr. McGeer: When a bank takes a bond from the government, what the government receives is a credit entry in the banker's book showing the banker as a debtor to the government to the value of \$1,000?

Mr. Towers: Yes.

Mr. McGeer: And in law all that the bank has to hold in the way of each to issue that deposit liability is 5 per cent?

Mr. Towers: Yes.

A. There is no dispute about that.

Q. There is no dispute about that. Well, I am glad you confirmed that. Now, speaking as manager of the Bank of Montreal, can you give us any idea of the amount of capital securities that the bank holds; that is, securities for their current loans?—A. Well, you mean the securities they carry?

Q. That is apart from securities.—A. Yes.

Q. That you acquired from the government or from investments.—A. No, I haven't got the amount of that.

Q. You haven't got the amount?—A. Of the government, no.

Q. Well, I submit that it would be a very substantial amount.—A. It varies greatly; it increases at the time of the victory loan campaigns and then it decreases very sharply as time goes on before the next one comes on, of course.

Q. Now, to what extent is bank deposit credit used for the purchase of victory bonds?—A. Oh, very largely.

Q. Very largely. For instance, we had one letter here in which it was stated that a bank had proposed that bonds be purchased with bank deposit money

and then the bank would take it over later on?—A. Of course, these isolated instances are often reported to us, and very frequently not tracked down but, of course, that is not the right procedure.

Q. Of course, any bonds that the banks get that way would be 3 per centers? —A. Not necessarily; there might be some short dated ones. I do not know.

Q. They would not be any more than 3 per cent?—A. Well, they might be less; they would not be more.

Q. Can you tell me what amount of 3 per cent bonds the banks hold to-day? —A. No, I cannot tell you that, but I think the yield must give some indication of the type of bonds that are held. It has been calculated the yield on the holding of government bonds—I think Mr. Towers said about \$40,000,000, did he not, on the \$2,700,000,000?

Q. I think he made an estimate. I do not think there was any accurate figure given to us. It varied from \$35,000,000 to \$40,000,000, but I do not think we have had any information definitely yet before this committee as to what the actual yield is from any one who said he knew the figure.

Dr. CLARK: I gave the figure yesterday. The average rate of interest last year was 1.59 per cent.

Mr. McGEER: That is on the actual survey in your own records?

Dr. CLARK: That is right.

Mr. McGEER: Do you know how much of the 3 per cent bonds they hold?

Dr. CLARK: No.

Mr. McGEER: You must have had that before you if you could make up the average rate of interest.

Mr. TOMPKINS: That was on all government holdings.

Mr. FRASER (*Northumberland*): That is all government borrowings.

Dr. CLARK: That is on their total holdings of dominion government securities.

The WITNESS: It is filed as exhibit 29.

Mr. TOMPKINS: That average rate was arrived at by taking the total holdings of the dominion government bonds and the total revenue from those bonds and dividing one into the other and arriving at an average rate of 1.59 per cent.

Mr. McGEER: You must know the amount of 3 per cent bonds as well as the other.

Mr. TOMPKINS: Not necessarily at all.

Mr. McGEER: Do you mean to tell me that information is not in the Department of Finance as to how much dominion government bonds are held by the banks?

Mr. TOMPKINS: No, the Department of Finance knew what the total dominion holdings were and what the total revenue from those same dominion holdings was for the year, as Dr. Clark indicated yesterday, and that was very easily worked out at an average rate of 1.59 per cent.

Mr. McGEER: All right, if we cannot get the information we cannot get it.

Mr. ABBOTT: You have got it.

Mr. McGEER: I asked how much 3 per cent bonds were in the possession of the banks.

Mr. ABBOTT: I beg your pardon.

Mr. McGEER: We will have to drop it, I suppose.

Dr. CLARK: Mr. McGeer, I think you could get it for any particular moment or point of time. It would be varying all the time. Most of the 3 per cent bonds they would have I would think very likely would be bonds that

they have bought from holders of victory bonds who want to sell them in an emergency. The banks buy them temporarily, with the intention of selling later on. In other words, that is part of the process of making a market for victory bonds, but the banks do not hold—

Mr. McGEER: It varies from time to time.

Dr. CLARK: It will vary every day.

Mr. McGEER: Although, mind you, they have now a very substantial amount of liquid securities from the government itself which is really the Bank of Canada. I think you will agree with me in this, Dr. Clark, that never in the history of finance have bankers been so adequately supplied with liquid assets as they are at the present moment?

Dr. CLARK: That is quite true.

Mr. McGEER: Far in excess of anything that was ever dreamed to be necessary in the days when they were lending as much as \$1,600,000,000 in the trade of the country as they were in 1929 and had only \$350,000,000 of government securities.

Dr. CLARK: Yes. The banks would very much prefer to be back in that position again, Mr. McGeer.

Mr. McGEER: I am very anxious to get them back there.

Dr. CLARK: The present position is the result of the financing of the war by the government. I thought we were talking about how many 3 per cent bonds they hold. The banks normally buy very short term securities of the government, a number of medium term and very few long term bonds.

Mr. FRASER (*Northumberland*): Could I ask Dr. Clark this question? Is there any understanding between the government and the chartered banks whereby the chartered banks purchase publicly owned or individually owned victory bonds in order to stabilize the market?

Dr. CLARK: I do not think there is any understanding of a formal nature on that point. We have, of course, in our victory loan advertising told the public that if they needed to sell their bonds they could go into a bank or a dealer at any time and sell them. The banks would normally do that as a matter of business and probably would be anxious to support the government's policy of financing the war in the way we are doing. I would not say there is any formal understanding.

Mr. FRASER (*Northumberland*): Perhaps that is going a little too far, Mr. Chairman, but the point I want to make is the chartered banks are there to take up that breach and maintain government loans at par by buying them when the public offer them.

Dr. CLARK: I think in a great many small places if the local branches of the bank were not willing to buy the bond of a person who needed to sell it quickly the market for dominion bonds would be very much less satisfactory than it is. They perform a real service in that respect.

Mr. FRASER (*Northumberland*): If I may, is this not also true, that the chartered banks today are lending on government bonds at $\frac{1}{2}$ of 1 per cent over the rate that they receive when they take these bonds in from the public?

The WITNESS: The rate has not anything to do with the coupon rate. The rates that we lend on government bonds are pretty well set.

The CHAIRMAN: Mr. Gardner, may I ask that you speak a little bit louder?

The WITNESS: The question is, do we lend on government bonds and at what rate? Is that not the question?

Mr. FRASER (*Northumberland*): Realizing the purpose may have an effect.

The WITNESS: We lend on dominion government and dominion guaranteed bonds at $3\frac{1}{2}$ per cent, but during the victory loan campaigns when people are buying bonds we lend at the coupon rate so that they really carry them without cost to themselves, without cost to the borrower.

Mr. FRASER (*Northumberland*): Mr. Chairman, thanking the witness for the answer he has given, is it not true that the commercial banks are facilitating industrial loans by accepting collateral of government bonds at approximately $\frac{1}{2}$ of 1 per cent over the 3 per cent that is received by the owner of the bond?

The WITNESS: Yes, that is quite true, if you put it that way.

Mr. FRASER (*Northumberland*): In other words, the banks are facilitating industrial loans to-day and encouraging industrial companies to purchase and hold victory bonds by lending them as collateral at about $\frac{1}{2}$ of 1 per cent.

The WITNESS: That is quite true. In addition to that when we see people going to borrow we often suggest to them that if they would pledge their victory bonds they would get a lower rate, so we do everything we can to encourage them to borrow against bonds.

Mr. FRASER (*Northumberland*): It brings into focus that commercial banks to-day are accepting a margin of $\frac{1}{2}$ of 1 per cent over the return that the industrial companies receive?

The WITNESS: Yes, that is a 3 per cent bond.

By Mr. McGeer:

Q. Can you tell me the average rate that you receive on your loans called current loans?—A. It may be a matter of record here. It is at page 136 of the standing committee. The ratio of interest on loans to total loans is 4.55 per cent.

Q. 4.55?—A. Yes.

By Mr. Fraser (Northumberland):

Q. You are referring there to commercial loans?—A. Total loans.

Q. Including loans on money borrowed by the government, or just commercial loans—A. No, that comes under investments.

By Mr. McGeer:

Q. That is the rate, I take it, on commercial loans including call loans?—A. Yes.

Q. Then, deducting call loans from that which are at a lower rate than ordinary commercial loans, are they not?—A. Yes.

Q. What would be the rate on the ordinary commercial loan, not the call loan?

Mr. TOMPKINS: Mr. McGeer, if you will refer to Exhibit No. 11 at page 118, you will notice the average interest and discount rates were filed on four or five different classes of loans. That is all on record.

Mr. McGEER: I wanted to get it on the record with Mr. Gardner.

The WITNESS: If it is on the record, I think the record should speak. I cannot remember these figures.

By Mr. McGeer:

Q. Well, let me put this proposition to you as a matter of sound finance. When the Bank of Canada buys upon the open market victory bonds or any type of government security, it becomes the property of the Bank of Canada, does it not?—A. Yes.

Q. And the Bank of Canada can return that to the government and the loan can be cancelled?—A. It might, if it is foolish enough to do so, I suppose.

Q. I know. But the Bank of Canada is owned by the government of Canada?—A. Yes; but surely there is a regular way of doing these things.

Q. But if the Bank of Canada were instructed to carry out a policy of liquidating the outstanding debts of the dominion, the Bank of Canada could issue its money in exchange for bonds?—A. That is quite true.

Q. And those debts could then be cancelled?—A. That is quite true. With a managed currency the central bank is willing to give a non-interest-bearing piece of paper for an interest-bearing piece of paper. There is no dispute about that.

Q. And that would be sound business in any banking practice?—A. I doubt whether it is very sound business, but it could be done.

Q. It could be done?—A. Yes. I do not care to say anything more about that.

By Mr. Fraser (Northumberland):

Q. It has very dangerous ramifications?—A. Undoubtedly.

By Mr. McGeer:

Q. If it has any more dangerous ramifications than the debt load we are imposing on this country, I should like to know what they are.—A. Well, if the experiment is tried, it will soon be found out.

Q. Yes. But it has not been tried yet?—A. No.

Q. So whatever these ramifications are they remain in the realm of theoretical speculation?—A. I would not say that.

Mr. CLEAVER: It was tried in other countries, Mr. McGeer.

The WITNESS: It has been tried elsewhere, I should say with somewhat disastrous results.

Mr. FRASER (*Northumberland*): Russia, Germany and Italy.

Mr. GRAHAM: Mr. McGeer, may I ask two general questions?

Mr. McGEER: Yes.

By Mr. Graham:

I have often meant to ask these questions of some of the other witnesses who have appeared. I think with you, Mr. Gardner, present as a witness, and you here, too, Dr. Clark, as a witness, I should like to ask these two general questions. I assume, as a banker, it is part of your interest, if not of your duty, to appraise the banking practice of the financial policies of most of the civilized countries of the world?—A. Well, that takes in a lot of territory.

Q. Yes. But I assume you, to some extent, study at least the banking practice and financial policy of Great Britain, the United States, Australia and New Zealand, let us say?—A. Well, I know something of them; yes.

Q. Yes. Do you know of any banking system or any government policy actually in operation, after four and a half years of war—or in a lesser period in the case of the United States because they have not been in the war as long—that has done a better job? It has left this country quite confident that it can complete the carrying on of the all-out war effort we have embarked upon? Do you know of any country that has made a greater success?—A. No, I do not.

Q. Do you know of any country, or any one among those countries that I have mentioned, that can face the post-war period, so far as the financial policy that it has pursued in the war is concerned, with greater courage and more optimism, and the belief that because we did it in war time we are capable, in

our banking and financial policy, of taking care of the post-war needs? Do you know of any country in the world which is in as favourable a position as is Canada?

Mr. SLAGHT: Do you mean from the bankers' standpoint or the public's standpoint?

Mr. GRAHAM: From the public's standpoint.

The WITNESS: You are asking me a pretty big question there, but I will only say that I think Canada has done a first-class job in financing this war. Of course, the length of it will make some difference to the post-war period.

By Mr. Graham:

Q. Yes.—A. But I have not seen any suggestion of how we could have done it better that has appealed to me.

Q. You know of none?—A. I know of none.

Mr. GRAHAM: None. Dr. Clark, what is your answer to those two questions?

Some Hon. MEMBERS: Oh, oh.

Dr. CLARK: Well, I do not know whether I should comment on that.

Mr. GRAHAM: I am speaking, Mr. Chairman, of the net result that we know about. We are in a field that we know something about.

Dr. CLARK: May I put it this way, Mr. Graham? The people I meet from other countries think that Canada has done a wonderful job in the respects you are speaking of, and think that we have done a better job than most other countries.

Mr. GRAHAM: Yes.

Dr. CLARK: And we are in a mighty good position to deal with the post-war picture if we can carry on to the end as we have been doing so far.

Mr. FRASER (*Northumberland*): Dr. Clark, your system is sufficiently flexible that improvements can be made, as they have been made, step by step, as you go along. That is right?

Dr. CLARK: Yes.

Mr. FRASER (*Northumberland*): Do you agree with that, Mr. Gardner?

The WITNESS: Yes, I think so.

By Mr. McGeer:

Q. If you agree with that general proposition, what did the Hon. Mr. Charles Dunning mean when he warned the country back in 1939, when there was only a \$60,000,000 deficit, that if deficit budget financing was continued, the whole private enterprise would have to be taken over by the government?—A. Well, you are comparing peace time with war time; and when the house is burning down over your head, you have to take any steps that you can to preserve yourself.

Q. All right. But we have had deficit financing now for four years that has accumulated more national debt than was accumulated throughout the entire previous history of Canada.—A. Yes.

Q. We have had deficit financing on a scale unparalleled in history, and we are not going to know the outcome of that deficit financing until we go into the post-war period.

Mr. FRASER (*Northumberland*): But all of it is owing to our own people.

The WITNESS: I think that is right. But you will not expect me to say very much about government policy, will you?

By Mr. McGeer:

Q. No. But you will agree that in discussing monetary matters and banking, there is the point of view of the banker and the point of view of the public service?—A. I think there is.

Q. And they may not be in harmony.

Dr. CLARK: Mr. McGeer, may I ask you a question?

Mr. McGEER: Yes.

Dr. CLARK: Is it not the burden of that national debt that is the only significant thing? It is not the dollar size of the debt, but what it costs to carry it?

Mr. McGEER: Oh, well, if you assume that you can go on carrying a debt load which is pyramiding annually into a greater debt load.

Dr. CLARK: Take the cost of carrying that bigger debt load, which is much larger to-day than we had before the war. Take it in terms of the annual interest charge in relation to the government revenue or in relation to national income, and you will find it is a lower burden, a lower percentage than the debt was at the beginning of the war.

Mr. McGEER: A lower percentage but not a lower amount.

Dr. CLARK: No.

Mr. McGEER: Because I read in the Bank of Canada report that our total interest payable was \$169,000,000 at August 31, 1939, and \$304,000,000 at September 31, 1943.

Dr. CLARK: Yes. But it is easier to carry that to-day with a national income of over 8 billion dollars than it was to carry a very much smaller amount in 1938 or 1939 when our annual income was $3\frac{1}{2}$ billion dollars, and there was very little surplus over the minimum cost of living, if you like.

Mr. McGEER: And to get that national income of 8 billion dollars which you put it at, we have to go into the hole by \$3,200,000,000 on next year's budget. Where would the national income be if the government was not going behind at the rate of, roughly, 3 billion dollars a year, because that national income is coming out of government spending, and national debts that are being imposed upon the future.

Dr. CLARK: It is in part being stimulated or created by government expenditures, yes.

Mr. JAQUES: Going into debt.

Mr. FRASER (*Northumberland*): But it is 3 per cent debt, not $5\frac{1}{2}$ per cent debt.

Dr. CLARK: That is right. That is one of the factors.

Mr. McGEER: Your borrowing is so much greater that you have got now to the point where the annual interest charge is such that it means that before this war is over, if it keeps on increasing annually at the rate it has, there will be a larger fixed charge upon the income of the people in the coming post-war period than the total revenues of the nation were in the pre-war period.

Dr. CLARK: We have a long way to go yet before that point is reached.

Mr. McGEER: Not very far.

Mr. SLAGHT: Dr. Clark, do you remember telling Mr. McGeer about three days ago in answer to this question:—Question: I suggest to you that we cannot go on pyramiding the debt indefinitely; and your answer was: Not indefinitely, no.

Dr. CLARK: No, but "indefinitely" is a very long time in the future.

Mr. SLAGHT: Yes, it is a very long time. Now, my friend was curious to have somebody fix a future period. Would you care to fix to what extent we can go on pyramiding the present debt of \$16 billion as at the end of this year, according to Mr. Towers—how long do you suppose Canada can go on pyramiding that \$16 billion upwards?

Dr. CLARK: I think, Mr. Slaght, that if our debt charge, the annual net burden of the debt on the very much increased debt we have to-day, is a smaller percentage of the national income than it was in 1939, than the corresponding net annual charge was in 1939, then I think we can go quite a long way yet without any fear at all, as long as we manage our affairs properly.

Mr. SLAGHT: All right, the national charge now is \$310 million. Let me see if you will controvert this suggestion that when the war ends almost inevitably the national income will begin for a time to decrease; what do you say?

Dr. CLARK: Well I am not sure of that at all. There might be a slight decrease for a time. If we handle ourselves properly I do not think there will be reason for any great decrease.

Mr. SLAGHT: Never mind "great" or "slight"; do you suggest to this committee that when the war ends and in the readjustment period of two or three years that our national income, built as we know it now, will not have a decrease?

Dr. CLARK: I say there may be if we do not do things perfectly, quite perfectly—there may be a small decrease for a time; but I think we can keep the national income of this country higher than we have seen it in this war if we stick together in this country and do things that are intelligent.

Mr. SLAGHT: Our Prime Minister says that he was hopeful—this was when speaking on the introduction of the reconstruction bill—that after the war we will be able to decrease taxation and decrease borrowing. Do you think we can do that under the present economic and financial system of debt load?

Dr. CLARK: Of course we can.

Mr. SLAGHT: With the national income slightly decreasing, if you think that is all it will decrease?

Dr. CLARK: Well, I think that over a moderate period of time we can increase our national income, build it higher than we had it in the war period.

Mr. SLAGHT: If you go far enough ahead.

Dr. CLARK: I said a moderate period of time.

Mr. McGEER: Why didn't you do it in 1938 and 1939, if you know how to do these things now? You were there. Why didn't you do it during the ten years you were in charge in the depression?

Dr. CLARK: I think you are placing too much importance on me, Mr. McGeer.

Mr. McGEER: You are telling us it can be done.

Dr. CLARK: Of course it can be done.

Mr. McGEER: How can it be done?

Dr. CLARK: It depends on whether the people of Canada can stick together.

The CHAIRMAN: Permit the deputy minister to answer.

Mr. McGEER: You do not need to blow the roof off.

The CHAIRMAN: I was not blowing the roof off; I was afraid it would blow off.

Mr. McGEER: Tell us how it can be done?

Dr. CLARK: The crux of the question, Mr. McGeer, is whether the Canadian people in the post-war years can show some intelligence and can unite together

behind a peace time ideal that they will believe in as unanimously and support as enthusiastically as they have supported the winning of this war. If you can keep that national unity behind some great peace time purpose—for instance some of the purposes you were describing yesterday—I think we can do the trick.

Mr. FRASER (*Northumberland*): This servicing of the debt becomes part of the income of the people?

Mr. SLAGHT: Yes, if it is internal debt.

Mr. FRASER (*Northumberland*): And it consequently pyramids back to production; is not that correct?

Dr. CLARK: It flows back into income.

Mr. FRASER (*Northumberland*): And that income flows back into production?

Dr. CLARK: Yes.

Mr. SLAGHT: Is it not true that the holders of victory bonds represent some three million, two hundred thousand people out of eleven and one-half million people?

Dr. CLARK: I believe it is something over three million people.

Mr. SLAGHT: That leaves eight million three hundred thousand people amongst whom, as my friend told me, there are some babies; but that three million two hundred thousand being creditors of the eleven and a half million, that leaves eight million two hundred thousand people including the babies who do not own a victory bond at all and are debtors and taxpayers?

Dr. CLARK: How many families are there in this country, Mr. Slaght?

Mr. SLAGHT: I could not tell you. Perhaps you would like to tell us?

Dr. CLARK: Well, there would be around three million, I suppose; perhaps a bit less than three million.

Mr. SLAGHT: You can talk of families if you like, but I am talking of individual taxpaying heads.

Dr. CLARK: That would be a family, primarily.

Mr. SLAGHT: You cannot get away from the total population, the total creditors and the total taxpayers. Now there are the figures: 11,500,000; 3,200,000; 8,300,000.

Mr. FRASER (*Northumberland*): Of the 8,300,000 there are 3,000,000 juveniles.

Mr. SLAGHT: You say so. I doubt that.

Mr. FRASER (*Northumberland*): Look at the Canada Year Book.

Mr. SLAGHT: Take the three million juveniles, some of whom are bond holders—Mr. Fraser's children all have bonds I have no doubt—and you still have the figure of 3,200,000 bond holders and creditors collecting from the taxpayers interest on their bonds—and taking off the three million babies, which I think he is counting too high.

Mr. FRASER (*Northumberland*): Have any of those babies of yours got bonds?

Mr. SLAGHT: That leaves five million two hundred thousand adults who are paying taxes who have not got anything coming in from their fellow taxpayers by way of interest.

Mr. MAYHEW: Would you not say that the insurance money—the bonds of the insurance companies come back to the individual citizen?

Mr. SLAGHT: A very small proportion, if you want to go into that. The moneys of insurance companies go largely into investments which the directors of the insurance companies are interested in, and properly interested in.

Mr. JACKMAN: I think that statement should be challenged. I haven't got the figures here but I doubt very much if there is even a shadow of substance in the statement made by Mr. Slaght that the insurance companies have a majority of their investments in companies or securities in which the directors are interested.

Mr. SLAGHT: That is properly understood because they disclose their interests. Before you challenge my statement you better look it up and find out what the facts are.

Mr. JACKMAN: I will.

Mr. McGEER: Of course, with regard to the distribution of the ownership of bonds, it is not the mere number of bonds or the number of holders that count but the value in the different groups and the percentage of the total amount of the indebtedness held by the people of the country is very much larger than that held by the masses of people of Canada; you will agree with that, will you not?

Mr. FRASER (*Northumberland*): No, I would not agree with that.

Dr. CLARK: I am not at all sure of that, Mr. McGeer.

Mr. McGEER: I mean to say, to have any correct idea of the distribution of income from a national debt internally an analysis would have to be made; for instance, I know several men who have several millions of dollars of bonds.

Mr. JACKMAN: It will be all taxed away from them.

Mr. McGEER: I know of several other people who have a fifty dollar bond.

Mr. FRASER (*Northumberland*): Where would the wealthy start?

Mr. McGEER: I would say, the number of people holding bonds to the value of \$5,000 and up.

Mr. FRASER (*Northumberland*): Would be wealthy?

Mr. McGEER: Would be a very small percentage of the whole community, and that the numbers holding bonds to the value of \$500—or \$5,000 and below, would be a very large percentage of the community.

Dr. CLARK: Oh yes, I should think that the wealthier people, the people with the larger incomes, would hold more bonds than people with small incomes.

Mr. SLAGHT: Might I emphasize that for Mr. Fraser.

Mr. FRASER (*Northumberland*): You mean, in the aggregate?

Dr. CLARK: No, per person.

Mr. FRASER (*Northumberland*): Per person, but not the aggregate.

Dr. CLARK: No, not in the aggregate, I do not know that figure.

Mr. SLAGHT: Well, Mr. Fraser, a very good test of that is this; the figures for last year's income tax showed that we collected \$822,000,000 odd from personal income tax, roughly speaking—I am giving you approximate figures—those with personal income taxes were paid by 1,000,000 taxpayers, and of those 950,000 taxpayers paid only \$37,000,000 out of \$128,000,000; so if you want to get a criterion of where the money lies that is a very good yardstick for you.

Mr. CLEAVER: And do not forget this, that there is a terrific turnover of wealth from these large holders by the taxation process.

Dr. CLARK: All I was going to say was we would be very anxious to get those figures. We have not been able to get them from national revenue as yet for the past year. I did not know they were available.

Mr. SLAGHT: They have been before us in the House.

Dr. CLARK: For last year?

Mr. FRASER (*Northumberland*): 1942, not 1943?

Dr. CLARK: I do not think so.

Mr. JAKUES: I merely wanted to ask Dr. Clark supposing the bonds were evenly distributed what would be their value?

Dr. CLARK: What would be their value?

Mr. JAKUES: Yes.

Dr. CLARK: I hope they would be of the same value as of today.

Mr. JAKUES: Oh well, if we didn't pay one another's interest.

Dr. CLARK: I am afraid I do not quite follow you.

Mr. JAKUES: I am merely supposing that these bonds are spread evenly, owned evenly by everybody throughout the country, everybody would be paying the same interest to everybody else; and they would not have as much value because they would be held evenly. I base my supposition on the view expressed by the Hon. Mr. Dunning who says that he hoped that the bonds would be held as widely and evenly as possible—he was speaking of the war bonds—that they would be distributed as evenly as possible. Well, if you take that literally it means that everybody throughout Canada will have an equal number of bonds.

Mr. FRASER (*Northumberland*): That does not follow.

Mr. JAKUES: In such a case I ask you what would be the value of the bonds?

Dr. CLARK: The bonds I presume would have the same value as they have at the moment; but I think that is not quite the statement you made earlier; I thought you made the statement we would each be paying interest to the other.

Mr. JAKUES: Yes.

Dr. CLARK: And you suggest that that would be very simple to manage.

Mr. JAKUES: That is what I suggest.

Dr. CLARK: That is not the point. The very wealthy man may have been taxed back by the government as much as 96 per cent of the yield on his 3 per cent bonds in taxes whereas I would be paying a very much smaller percentage than that, and other people perhaps an even smaller percentage still.

Mr. JAKUES: The value of the bonds is this that I have one and you have not and I am taxed to pay your interest; and my objection to the thing is that of course it is harder for people who are unable to buy bonds because they will have to pay the savings which are on the bonds when the war is over.

Dr. CLARK: No, I do not think that at all.

Mr. JAKUES: Now, I attended last fall, I think it was a local meeting for railway people and it was addressed by a speaker from the Department of Finance and he was speaking to railway employees most of whom of course are quite well paid, and he said, now we don't expect the younger men to buy bonds—

Dr. CLARK: He would not be a speaker from the Department of Finance.

Mr. JAKUES: Yes he was.

Dr. CLARK: Could you give me his name?

Mr. JAKUES: I may be able to remember his name; anyway, he said we don't expect the younger men to buy bonds, as many bonds as the older men.

Dr. CLARK: Not to buy as many as the older men, he didn't suggest that they do not buy any.

Mr. JAKUES: I did not say "any"; not as many.

Dr. CLARK: Yes.

Mr. JAKUES: Because he said the younger ones will be raising families or they will be paying for their homes and their insurance. And now, it was the older ones who had raised their families and their families were off their hands, and they had paid for their homes and they had paid for their insurance and they were the ones who should buy the bonds; and I agree to that, of

course. But then when the war is over it is the younger men who have not the bonds who will have to pay the interest to those who are better off with their 3 per cent interest. I do not see any escape from that.

Dr. CLARK: Are they going to be the heaviest taxpayers after the war? I do not think so.

Mr. JAUQUES: If you are going to tax it all away from them, what is the good of the whole thing?

Dr. CLARK: We do not tax it all away from them; but in the case of the very wealthy man or the man with a very large income we do tax most of the income, interest income, back.

Mr. McGEER: Whether it comes from a bond or anything else.

Dr. CLARK: Yes.

Mr. McGEER: But what I had in mind, was this, Doctor; I think it is a very dangerous thing to say that an internal debt is something that you do not need to worry about. My reason for that is this; first, people who have their investments in government bonds are reluctant to take them out of that secure form of investment and put them into the type of industry that is necessary to sustain the payrolls and expanding economy that we need.

Dr. CLARK: A certain class of people, I think, Mr. McGeer; but I think the enterpriser would much prefer to get 6, 7 or 8 per cent or more on his money than three per cent.

Mr. McGEER: But not with the taxation program such that of all that is made by speculative enterprises that are successful any large amount is taken away from them.

Dr. CLARK: But you are talking about taxation under war conditions.

Mr. McGEER: I am talking of the taxation we have today and which we will continue to have unless investments in bonds are going to benefit the rich and not the poor.

Mr. FRASER (*Northumberland*): Tax them away from the rich.

Mr. McGEER: But you take everything away and you leave an investor only anxious to secure a safe investment of his money; and that is one of the bad features of an internal debt; a further bad feature that I say any internal debt—

Mr. GRAHAM: On a point of order, Mr. Chairman: I suggest that Mr. McGeer is now in a field that has no connection with the matter with which this committee is charged; and I suggest that he is opening up a debate in a very wide new field—I must say I am in agreement with and support a lot that he is saying—but I submit that he is completely out of order in this committee.

Mr. McGEER: It has to do with this amendment. It is a question of whether or not we are going to finance a public internal debt with Bank of Canada cash or with public debts issued by the government. You will agree with the first danger; and I am sure you will agree with the second, that is, the internal debt owned by the rich, and you would have a great deal of difficulty going out into the public of Canada and telling the mass of the people that they own the debts of the dominion.

Mr. FRASER (*Northumberland*): Not to-day.

Mr. ABBOTT: Mr. McGeer, do you think you could continue your endeavour to complete your examination of Mr. Gardner? I know we have got sidetracked a bit, but I think in the interests of orderly procedure we might continue with Mr. Gardner.

By Mr. McGeer:

Q. I want to put this proposition to you as a banker, and I put, of course, the point of view of the public representative. Why is it not possible for the government of Canada with a bank that now issues under a managed paper standard the best money we have in Canada, why under those circumstances is it not possible for the government to pay cash for the services that it requires in peacetime and in wartime?—A. It is all a question of degree. If you put that power as you have it now in the hands of the government and the Bank of Canada there is no anchor. If the governments once starts on that road who is to say when they are going to stop? I do not know.

Mr. SLAGHT: The people.

The WITNESS: The people will probably make a demand for more and more currency all the time.

Mr. SLAGHT: The people elect the government.

The WITNESS: That is no reason why they should not be properly led.

By Mr. McGeer:

Q. There is no reason why— —A. Oh, it can be done.

Q. —the Bank of Canada should not be used by the government to pay cash for the services it requires?—A. Well, it has got dangerous implications, in my opinion.

Mr. FRASER (*Northumberland*): Proven by experience.

By Mr. McGeer:

Q. The dangerous implications would be that the government would spend too much?—A. Yes, I think that is a fair statement.

Q. And the result would be that the government would flood the country with money and the money value would fall?—A. Yes, I think that is true.

Q. That is the reason.

Mr. FRASER (*Northumberland*): That is only one reason.

The WITNESS: I might add I think it is the inequity of it that should prevent that course being followed.

By Mr. McGeer:

Q. Now, we have had some great statesmen produced in our English speaking civilization. One of them was Abraham Lincoln. Maybe you do not know it, but Lincoln was the man who developed the greenback currency of the United States to finance the immediate needs of the time in that nation's most desperate plight, and that following that experiment in 1864 he was nominated on a national currency platform. Lincoln as a statesman laid down the principle.

Government possessing the power to create and issue currency and credit as money and enjoying the right to withdraw both currency and credit from circulation by taxation and otherwise, need not and should not borrow capital at interest as a means of financing governmental work and public enterprise. The government should create, issue, and circulate all the currency and credit needed to satisfy the spending power of the government and the buying power of consumers. The privilege of creating and issuing money is not only the supreme prerogative of government, but it is the government's greatest creative opportunity.

Do you disagree with that?—A. I do not like agreeing or disagreeing with that kind of statement, but I would ask you this? Did those greenbacks always sell at par or did they go to a discount of 50 per cent?

Q. The price of gold at that time was lifted by manipulation, as you know, to \$237 an ounce.—A. Did gold go up or currency go down?

Q. Gold went up.—A. Well, there are two sides to that.

Q. They did not have the controls at that time that we have now, but with the controls over prices that we have demonstrated can be effectively operated, and which were recommended by the Macmillan report in 1931, we know that we can control prices to-day.—A. By rationing and so on, do you mean?

Q. By the process of placing a ceiling beyond which prices are not allowed to go.—A. I hope you are not going to contemplate that for peacetime.

Q. The Macmillan committee's report recommend that as essential to stabilize the economy. However, let me give you another view which Lincoln expressed:—

By the adoption of these principles, the long-felt want for a uniform medium will be satisfied. The taxpayers will be saved immense sums of interest, discounts, and exchanges. The financing of all public enterprise, the maintenance of stable government and ordered progress, and the conduct of the treasury will become matters of practical administration. The people can and will be furnished with a currency as safe as their own government. Money will cease to be master and become the servant of humanity. Democracy will rise superior to the money power.

Mr. FRASER (*Northumberland*): Those greenbacks bounced back with the carpet baggers.

Mr. McGEER: The greenbacks are still in circulation in the United States and they have a par value, the same value as any money in the United States.

Mr. FRASER (*Northumberland*): Only on recovery.

Mr. McGEER: Mind you, when Lincoln was launching that experiment the whole world was on the gold standard and it was the power of the gold standard operation that deliberately wrecked by manipulation, or attempted to wreck the national currency that Lincoln established.

Mr. CLEAVER: Mr. McGeer, do you believe wars can be financed without cost?

Mr. McGEER: I say wars can be financed in the way Lincoln used the greenback which was the national currency of the United States. Of course, mind you, Lincoln had no interest but the public interest when he laid down that principle. Do not make any mistake about Lincoln's knowledge of banking. For six years in the Illinois State Legislature he was the representative of the private bankers in that state.

The WITNESS: I am not saying anything about Lincoln. You can say it.

By Mr. McGeer:

Q. Do you disagree with that principle that he laid down?—A. I should like to follow through what happened to those greenbacks and whether it raised the cost of living of the poor people.

Mr. FRASER (*Northumberland*): The same thing happened to Germany after the war.

Mr. McGEER: It would happen in this country now if you did not have controls, but to say to-day that inflation is uncontrollable under any government is contrary to the very principle that Lincoln laid down and which we have now proven.

Mr. FRASER (*Northumberland*): Lincoln laid it down, the Kaiser laid it down, and they both went the same way.

Mr. McGEER: Until we came along and proved we could issue billions and billions and billions and still control prices.

Mr. FRASER (*Northumberland*): Under the stress of war and controlled with a semi-dictatorial state.

By Mr. McGeer:

Q. Of course, it has been common propaganda to describe national currency as inflationary, to describe it as funny money, as rubber money and as confetti, but Lincoln had a different view of national currency. This is what he said about it. In December, 1864, he wrote this letter to Colonel E. D. Taylor:—

I have long determined to make public the origin of the greenback, and tell the world that it is one of Dick Taylor's creations. You have always been friendly to me, and when troublous times fell upon us, and my shoulders, though broad and willing, were weak and myself surrounded by such circumstances and such people that I knew not whom to trust, then I said in my extremity, "I will send for Colonel Taylor; he will know what to do." I think it was in January, 1862, on or about the 16th, that I did so. You came, and I said to you, "What shall we do?" Said you, "Why, issue treasury notes bearing no interest, printed on the best banking paper. Issue enough to pay off the army expenses, and declare it a legal tender." Chase thought it a hazardous thing, but we finally accomplished it, and gave to the people of this Republic the greatest blessing they ever had—their own paper to pay off their own debts. It is due to you, the father of the present greenback, that the people should know it, and I take great pleasure in making it known.

Under a managed paper standard we have within our own hands the power to use our paper to pay our own debts. You will agree that is a possibility?—A. It is a possibility, but the results would be another matter.

Q. All right. Let me show you what the results of this debt claim system are already: a 16 billion dollar debt load, still increasing, and our only hope is that we can go on without placing an intolerable strain on the economy. How far do you think we can go on?—A. You will have to ask me something easier than that, Mr. McGeer.

Q. All right. What will happen when the intolerable strain is placed on the economy by the debt load?—A. The whole question is: Do we want to win this war or not, no matter what the result is in the world of finance?

Q. I think you can see signs of victory coming through at every point of the compass; and the people that are using their national currency power are doing a great job in this war. I think you will agree with that.

Mr. FRASER (*Northumberland*): What a fine mess China is in now!

Mr. McGEER: The Soviet Union has done a real job on national currency.

Mr. FRASER (*Northumberland*): It has a different set-up altogether.

Mr. McGEER: Yes. But there is no question about what they are doing on the eastern front.

Mr. FRASER (*Northumberland*): They repudiated their debts and started all over again.

Mr. McGEER: Well, do you want us to repudiate our debts and start all over again?

By Mr. McGeer:

Q. Now I say to you that if the government paid cash for its services the people would have cash as deposits in the bank, would they not?—A. Yes; I dare say they would.

Q. I will take a simple transaction. The government wants to build a bridge. When the order for the bridge is made, the engineers, the material men, the contracting firms and the labourers are marshalled and the bridge is completed. Why is it not possible for the government to pay with its own cash

for that bridge the amount of money that the people who built it have earned, without borrowing from anybody or without paying any interest to anybody?—A. My answer to that is that the government have got a bridge for nothing.

Q. The government have got a bridge for nothing. How?—A. They have got a bridge for nothing because by simply issuing pieces of paper which have no value in themselves, they have beguiled the people into putting their efforts into building the bridge; and if you keep that up indefinitely, you will find the people have nothing and the government has everything.

Q. All right.

Mr. JAKES: The people have the bridge.

By Mr. McGeer:

Q. You say the pieces of paper are worth nothing. What do you mean by that?—A. I mean in themselves.

Q. In themselves. You know that those pieces of paper are issued under the laws passed by the parliament of Canada. You know that?—A. I know that, yes.

Q. You know our national parliament has made these pieces of paper full legal tender money?—A. They did that in the French Revolution. They said they would cut off people's heads who would not take it, but the people would not take the currency.

Q. Do you think our people would refuse national legal tender currency to-day?—A. It all depends. Not to-day. You are talking about the future. I say it depends upon the wisdom of the government in using the power they have.

Q. Quite right. If the government is intelligent and wise enough to withdraw from circulation any redundancy of currency that might appear, that currency can be used to stabilize the progressive economy of the nation, can it not?—A. It all depends upon the wisdom with which the power is exercised.

Q. And if it is wisely, intelligently and reasonably operated, it would work?—A. Yes. But there would always be differences of opinion as to what those words meant.

Q. I quite agree. But apparently you have not a very high regard for the kind of men our electors in Canada send to parliament or the kind of men the government employ to manage its monetary system?—A. You must not put those words in my mouth, Mr. McGeer.

Q. I mean to say, do you mean to tell me that the wisdom of parliament is not involved in your statement?—A. Who can see into the future, Mr. McGeer? I cannot. I do not know what kind of government we will have in five years' time.

Q. I think you bankers hardly know where you are to-day, and I do not think you have the foggiest idea where you are going or where this debt claim system is going to take the nation.—A. I think we have got a very good idea of that.

Mr. GRAHAM: Mr. Chairman, that is quite uncalled for.

Mr. McNEVIN: Before we get away from the financial system of the Soviet Union, I should like to ask Dr. Clark what material difference there is between the present system of finance, borrowing and so forth, in the Soviet Union as compared with that in the Dominion of Canada?

Dr. CLARK: As I understand it, Mr. McNevin,—of course, they have a socialist state, a communist state— and their banking system is a state banking institution. But their methods of financing the war are very much the same as our own: high taxation, borrowing from the people out of the savings of the people in tremendous volume. There are some differences in their income tax structure. They have differentials for different categories of people. In the case of their borrowing, they use the type of campaign that we use in the

victory loan campaigns. They do issue two types of securities. One is an interest-bearing security and the other type is a lottery bond, a non-interest-bearing security with the lottery feature attached to it. But to all intents and purposes their methods are very much like the ones we have been following.

Mr. McNEVIN: Certainly.

Mr. JAKES: And we are headed in the same direction.

Mr. McGEER: I mean, what they have over there is a national banking system and they are taxing the people and withdrawing money in that way. Was it not only this year that they issued the first interest-bearing loan?

Dr. CLARK: No. They have been issuing them, I believe, every year since the war began, and before the war, Mr. McGeer.

Mr. McGEER: I understand from Wendell Wilkie's book "One World" that he laid it down very definitely that interest was not paid by the government on any loan, and he was in Moscow and made an investigation into that very thing. I do not happen to have the book with me, but I think if you will look up Wendell Wilkie's "One World" you will find he states definitely that there was no interest being paid on government loans.

Mr. GRAHAM: Mr. Chairman, it is seven minutes to ten, and I was wondering if Mr. McGeer would not have a little sympathy with the rest of the members of the committee, and let us deal with the amendment?

Some hon. MEMBERS: Hear, hear.

The CHAIRMAN: Mr. McGeer, you have heard the appeal.

Mr. McGEER: Yes, I have heard the appeal, but I have heard it so often before that I am not surprised at it, Mr. Chairman.

By Mr. McGeer:

Q. We have heard a lot of talk about getting something for nothing. You are, I suppose, one of the believers in the fact that the government cannot get something for nothing, like paying cash for their bridges, railways and schools? —A. No; I believe in the old biblical saying, "By the sweat of thy brow shalt thou eat bread".

Q. I just want to read you this statement.

Mr. NOSEWORTHY: The man that built the bridge would have sweat.

By Mr. McGeer:

Q. This is on the ownership and utilization of the monetary gold stock of the United States, where the Federal Reserve Bulletin tells us that the United States got its gold or accumulated its gold stock for nothing. Do you agree with that?—A. Do I what?

Q. Do you agree with that?—A. No. I would not say they got them for nothing, because they gave credit in their books, and the United States dollar of credit to the bank or any other institution is a pretty good dollar.

Q. All right. Listen to this:—

The process by which the treasury acquires gold and puts it into use involves a number of technical steps, partly the result of custom, partly the result of law and regulation. Reduced to simple terms they are as follows:—

1. The Treasury receives gold—usually at a United States assay office or mint—and issues a cheque in payment for it.
2. The cheque is deposited by the seller of the gold at his bank, which gives him credit in his deposit account.
3. The bank deposits the cheque in the Federal Reserve Bank and receives credit in its reserve account.

4. The Federal Reserve Bank charges the cheque to the balance which the Treasury maintains with it.
5. The Treasury replenishes this balance by crediting gold certificates to the Federal Reserve Bank in exchange for deposit credit.

At the conclusion of those five steps the matter stands as follows:—

The treasury has possession of the gold; bank deposits and bank reserves have both been decreased by the amount of the gold; and the treasury's checking balance at the Federal Reserve Banks, reduced by the purchase of the gold, has been restored by credits based upon the gold. The purchase of the gold has cost the treasury nothing. . . .

Now, that is a statement by the men who are doing it in the United States. I would like you to look at it.—A. Does not that confirm what I was saying just now?

Q. They say the treasury got it for nothing?—A. That is right.

Mr. GRAHAM: Canada certainly got paid for the gold that she sold to the United States; who pays for it?

By Mr. McGeer:

Q. You agree with that statement? Your objection to that kind of thing is the same objection I have heard of the government of Canada paying cash through its Bank of Canada with Bank of Canada notes?—A. No, I do not think it is the same; because if you will remember, when the Bank of Canada had to keep 25 per cent in gold they had some anchor, they had a yardstick from which they had to work. These people actually got the gold.

Q. I see, but they got it for nothing, just as I proposed to get the bridge for nothing?—A. No, they gave credit.

Q. Without the printed legal tender cash of the country?—A. If they got nothing for it, how did we get paid for our gold that we sent down there?

Q. Do you say that the people who issued that statement—the federal reserve people—are wrong when they make that statement?—A. I am not going to make any particular comment on that statement. I say that they gave value for it.

Q. But I tell you this, if we started paying cash through the Bank of Canada for our capital investments the bankers would not be getting any \$40 million or \$50 million a year in interest from the government, would they?—A. I do not know. You would have to work the transaction out.

The CHAIRMAN: Mr. McGeer, may I interpose for a moment. This question was asked of the Governor of the Bank of Canada, you will remember, by Mr. Jaques —

Mr. JAQUES: I never got an answer.

The CHAIRMAN: The Governor of the Bank of Canada has just sent the answer to us, and it might be well to have the Governor's answer read. I will ask the deputy minister to read it.

Dr. CLARK: "During the course of last Friday's meeting of the committee, Mr. Jaques quoted from a Federal Reserve System bulletin entitled 'Ownership and Utilization of the Monetary Gold Stock', a passage stating that 'the purchase of the gold has cost the Treasury nothing.' Mr. Towers was on the witness stand at the time Mr. Jaques made this quotation and asked to be allowed to read the passage in question before replying.

"On reading the context it appears that the word 'cost' was used in a strictly limited sense—referring to the fact that when the Treasury bought gold it issued a similar amount of currency in the form of gold certificates and therefore its cash balance was not lower because of the transaction.

"A government can pay for any form of expenditure by the issue of currency if it so desires. It has been pointed out to the committee on several occasions that the issue of currency is not a 'costless' method of financing. Any saving in interest to the government is offset by a correspondingly lower income so far as the general public is concerned."

Mr. McGEER: Now, according to that theory then the more interest the government pays the more the income of the people will be. I think that follows. Dr. Clark?

Mr. NOSEWORTHY: Certain individuals among the people.

Mr. McGEER: Of course; but I mean what Mr. Towers has put, as Governor of the Bank of Canada, is the proposition that as long as you are paying interest you are increasing the income of the people, and if you stop paying interest you decrease the income of the people.

Dr. CLARK: I do not think that follows from the statement—the second and third paragraphs.

Mr. McGEER: Yes, he has told us that before. In other words he is an advocate of the debt claim system and justifies it on the ground: "Any saving in interest to the government is offset by a correspondingly lower income so far as the general public is concerned." Well, any interest obligation paid by the government is offset by a corresponding levy of taxes on all of the people, is it not?

Dr. CLARK: Yes.

Mr. McGEER: Every dollar of interest that you pay out, whether it is to the banks or to any holder of a government security, is a product of a levy of taxes on all of the people.

Mr. NOSEWORTHY: All of the taxpayers.

Mr. McGEER: Yes, all of the taxpayers.

Dr. CLARK: In the final analysis.

Mr. McGEER: So that if we do not pay any interest we would not have to levy any taxes for interest. So that the income of the people would not be interfered with in the least.

Dr. CLARK: Mr. Towers said it would create costs for the people, nevertheless.

Mr. McGEER: No, no; get his language: "Any saving in interest to the government is offset by a correspondingly lower income so far as the general public is concerned."

Dr. CLARK: Is not there another sentence about a costless function, or not being a costless function?

Mr. McGEER: "A government can pay for any form of expenditure by the issue of currency if it so desires." That is the proposition I put up to-day. "It has been pointed out to the committee on several occasions that the issue of currency is not a 'costless' method of financing. Any saving in interest to the government is offset by a correspondingly lower income so far as the general public is concerned." Now, that must mean that the interest paid out by the government forms part of the income of the community as a whole; that is right, is it not?

Dr. CLARK: I am not sure that is what he meant.

Mr. NOSEWORTHY: I presume by "general public" he means the interest receiving part of the public.

Dr. CLARK: He may mean that; I am not sure.

Mr. McGEER: It is an important thing. If that is what he means it is not true, for this reason that every dollar of interest paid out by the government is secured from the people in taxation.

Dr. CLARK: In the last analysis, yes.

Mr. McGEER: So that the statement of the Governor of the Bank of Canada in that regard is not true, is it?

Dr. CLARK: I would like to have Mr. Towers' opinion; his own interpretation.

Mr. McGEER: That is the kind of evidence that has been given in this committee so often, that I think it is time that the deputy minister should check on that. Now, if I put that flatly to you that this is a statement by the Governor of the Bank of Canada which is not correct and in flat repudiation of the facts as we know them, then I think that kind of evidence should not be placed before this committee.

Mr. ABBOTT: It is not incorrect.

Mr. McGEER: It is absolutely false.

Mr. ABBOTT: That is your view, Mr. McGeer; you are entitled to your opinion; you are only one man.

Mr. McGEER: All right, my opinion is based on this fact—

Mr. ABBOTT: Or what you conceive to be a fact.

Mr. McGEER: —the interest paid by the government comes from a levy of taxes, so that the income of the people is reduced by the payment of interest in the levy of taxes that is made.

Mr. ABBOTT: Right; and the creditors would receive the income of it voluntarily. My friend got very exercised over their right to spend, and some others have spent.

Mr. McGEER: If the government does not levy for interest the people as a whole—that is the taxpayers—do not have to put up that portion of their income to pay the taxes.

Mr. ABBOTT: No, that is equivalent to repudiation of the few people who hold those claims.

Mr. McGEER: It is no such thing. Here is the statement made which assumes that it is not good business on the part of the government to eliminate interest charges where they can or to reduce interest charges where they can; and the policy of this government and the policy throughout the whole world has been to reduce interest rates and yet we are now confronted with the statement that if we do not pay interest the income of the people is reduced.

Mr. ABBOTT: Yes, Mr. McGeer, but it is an entirely different thing to reduce interest charges and to eliminate interest charges.

Mr. McGEER: Quite true, and this is the case where gold was purchased as currency not bearing interest; and when the government does that kind of thing it gets an asset for nothing but the use of its own power to create money, which is the only way they could ever meet the debt situation; and as long as this debt dealing monopoly continues one of the greatest burdens we are going to face is to have a democracy that can go forward free to expand with its own national currency.

The CHAIRMAN: Are you ready for the question?

Some Hon. MEMBERS: Question.

The CHAIRMAN: The question is an amendment moved by Mr. Slaght: that Clause 59 be amended by striking out in the second line thereof the word five and substituting therefor the words one hundred, and by inserting before the word deposit, in the third line thereof, the word demand.

All in favour of the amendment please show their hands.

I declare the amendment lost.

The second amendment is: "that a new subsection be added to Clause 59 to read as follows:—

The bank shall not make loans to the government of the dominion of Canada or any department thereof."

All in favour please raise their hands.

I declare the amendment lost.

Mr. McGEER: I do not know that it is necessary to record the vote, Mr. Chairman, but I would like to be recorded as having voted for both amendments.

The CHAIRMAN: Shall section 59 carry?

Section 59 carried.

Mr. McGEER: And I want to be recorded as voting against Section 59.

The CHAIRMAN: We are now on section 75:

Mr. JACKMAN: I do not know whether I am in order or not, but I should like to correct a statement made by Mr. Slaght in regard to the investments of insurance companies. He stated that it was the policy of insurance companies to invest in government bonds on the one hand and on the other to invest in securities in which the directors were interested. I have an analysis appearing in the report of the superintendent of insurance for December 31st, 1941 and there it shows that the total bond and debenture investments amounted to 60 per cent of the investments of the life insurance companies; and of that 59.72 per cent, 33.72 per cent were government bonds, 8.53 per cent were municipal bonds, 1.62 per cent were railways, 12.17 per cent were public utilities, 3.14 per cent were industrial and the remaining 1.27 were miscellaneous. Further to that, since 1941 the life insurance companies have invested very heavily in the various war and victory loans and I have here a table showing that the life insurance companies of Canada have purchased of the first and second war loans and the first to the fifth victory loans inclusive to October of 1943, a total of \$785,954,600 worth of bonds, which would bring their percentage of dominion government bonds up very substantially.

The CHAIRMAN: We are on Section 75. Mr. McGerr proposed an amendment:—

It shall be unlawful for any chartered bank to create and issue bank deposit credit in the place of, or as a substitute for, the lawful currency and coinage of the Dominion of Canada unless the amount so created and issued has been authorized by a board consisting of the Governor of the Bank of Canada, the Minister of Finance and the Prime Minister.

All in favour of the amendment please raise their hands.

The CHAIRMAN: I declare the amendment lost.

Is section 75 carried?

Section 75 carried.

Mr. McGEER: I want to be recorded as voting in favour of the amendment and against Section 75, Mr. Chairman.

The CHAIRMAN: Yes.

On Section 88:

Mr. PERLEY: I think Section 88 is a very important section.

The CHAIRMAN: It stands.

Section 89: stands.

Section 90: stands.

Mr. PERLEY: I think Section 90 and 91 both should stand, Mr. Chairman. I have an amendment for 91.

The CHAIRMAN: 91: stands.

Section 92: stands.

Section 93:

Mr. GRAHAM: I haven't got with me the amendment suggested by the minister. I did not expect you would be going on to-night. Possibly Mr. Clark will have that; and I will be delighted if he will watch that.

The CHAIRMAN: Do you want it to stand?

Mr. GRAHAM: No, but there is an amendment and I want to draw his attention to it.

The CHAIRMAN: Dr. Clark, would you tell us if you have anything on Section 93?

Dr. CLARK: No, we have no amendment on that.

The CHAIRMAN:

Section 93; carried.

Section 94; carried.

Section 112; carried.

Mr. GRAHAM: Might I ask Dr. Clark if there is any amendment to that?

Dr. CLARK: No. There is an amendment to 118.

The CHAIRMAN: Section 117; there is no amendment to Section 117, is there, Dr. Clark?

Dr. CLARK: No.

Mr. JACKMAN: I think Mr. Hanson wanted to say something on that.

The CHAIRMAN: All right, Section 117 stands.

Mr. JACKMAN: No, that was in connection with 92.

The CHAIRMAN: 117, carried.

Section 146—I believe there is an amendment from the minister there. Perhaps Dr. Clark and Mr. Tompkins could deal with that.

Mr. TOMPKINS: The only amendment, as I think the minister explained the other day, is to change the wording in line three on page 78 to, "not exceeding" instead of "of". That is the first word in that line and the amendment puts it back to the same as it was in the old act. It was an inadvertent error in the drafting of the bill.

Mr. PERLEY: Yes, that was agreed to.

The CHAIRMAN: Section 146 carried.

Section 148:

Section 149:

Mr. RYAN: That stands together with Section 88.

The CHAIRMAN: Stands with 88, I think.

Mr. McNEVIN: Was section 88 allowed to stand? This clause is tied in with Section 88 I believe.

The CHAIRMAN: Yes, it stands.

Section 149: stands.

Section 150: there is an amendment, would you explain that, Mr. Tompkins?

Mr. TOMPKINS: The only amendment to section 150 is to insert in the second line on page 79 the word "receipt" after the word "warehouse". It is a printer's error. It should be described as a "warehouse receipt, bill of lading", and so on.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Shall the clause as amended carry?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Carried. Section 165; carried?

Mr. NOSEWORTHY: You had better leave that.

Mr. TOMPKINS: I think that is a vital section.

The CHAIRMAN: We will let it stand if you like. Now, clause 20. We had better let that stand.

Mr. KINLEY: That is carried.

The CHAIRMAN: There is an amendment. Do you want to explain that amendment, Dr. Clark?

Mr. McNEVIN: I think we should let section 20 stand. There is some further discussion. That is the section which reduces the value of the stock from \$100 to \$10.

The CHAIRMAN: Is it the pleasure of the committee to adjourn until tomorrow at half past eleven?

Some Hon. MEMBERS: Yes.

The committee adjourned at 10.20 o'clock p.m. to meet again on Friday, July 21, at 11.30 o'clock a.m.

July 21, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Order, gentlemen. I am told that Mr. Papineau-Couture desires to make a statement in connection with Section 92 as it affects the province of Quebec.

Mr. Papineau-Couture, will you please come to the table.

Mr. G. C. PAPINEAU-COUTURE, Counsel for the Attorney General of the province of Quebec, called.

The CHAIRMAN: Will the witness proceed.

The WITNESS: Mr. Chairman and members of the banking committee: on behalf of the Attorney General of the province of Quebec I wish to make certain representations regarding Section 92. It is the submission of the Attorney General of Quebec—

Mr. McGEER: Would you kindly tell us who you are?

The WITNESS: I represent the Attorney General of Quebec, sir.

Mr. McGEER: Yes, what is your name?

The CHAIRMAN: Mr. Papineau-Couture.

The WITNESS: The Chairman announced it.

—the province of Quebec and the federal government that legislation passed by the province in 1939 concerning vacant property affecting all unclaimed dormant deposits in any credit institution including banks is now before the Privy Council. The superior court of the province maintained that the legislation was *intra vires* of the provinces as being a matter in civil rights and not of banking. The Court of King's Bench, appeal side, of the province sustained the trial judges four out of five; and the Bank of Montreal from whom we sought to recover deposits which had been unclaimed for a period of thirty years and more—as a matter of fact, almost a hundred and twenty years—that litigation is now before the Privy Council; and it would be argued at this time had it not been for the conditions on the other side and the absolute impracticability or prohibition as to crossing and travelling in England except on cases of urgent national necessity, and this matter one could not qualify as such.

Mr. McGEER: Why did it not go to the Supreme Court of Canada?

The WITNESS: The dominion of Canada gave notice of appeal as *intra venis* between the bank and ourselves to the Privy Council, no doubt because the supreme court had also by unanimous judgment rendered in April or May of 1943 in the case between the province of Manitoba maintained the same doctrine. That was the case of the Minister of Revenue, I think it is, of Manitoba and the Minister of Finance, in a case arising out of unclaimed deposits in trust companies after winding up. And in virtue of the 1940 statute of the province of Manitoba which followed Quebec's example stipulating that vacant property, and among that unclaimed deposits, became escheative to the crown in the right of the province at the end of, I think in the case of Manitoba it was twelve years. That litigation was concluded upon the possibility of an appeal—with respect to which I am not in a position to pronounce myself—to the Privy Council for final judgment; so far there is the unanimous judgment of the Supreme Court of Canada which confirms the validity of the Manitoba legislation.

Mr. McGEER: With the distinction that in one case it is a trust company and the other a bank?

The WITNESS: Yes, quite so; but the vacant property Act in both provinces embraces the unclaimed deposits, amongst others all unclaimed deposits in all credit institutions, whether trust companies, corporations, banks or so on. Now, for that reason, it is the submission of the Attorney General of Quebec that until such time as the Privy Council has pronounced its final decision and has cleared the atmosphere section 92, which introduces new law into the Bank Act, is inopportune and may complicate matters. There is no urgency that we can see in the proposed new legislation and we consider that it is an interference with and an invasion of, on the grounds of provincial autonomy, provincial property and civil rights.

Mr. McGEER: Well, of course, if you proceed the Privy Council decision might be in your favour or it might be adverse.

The WITNESS: It might, and it might not; but I will cover that later. It is so worded that in our view it may necessitate further litigation between His Majesty in the right of the dominion and His Majesty in the right of the provinces.

Mr. GRAHAM: Under the proposal possession would be in the dominion authority.

The WITNESS: Well, I am afraid there might be a little bit more—if I were assured by the judgment of the court of final resort that it is only possession I would feel much more certain of my ground and I would not insist so much in my objection; but I am not in a position here to-day before you gentlemen to discuss this case as though I were before a judicial tribunal naturally.

Mr. GRAHAM: In effect what you are afraid, I think you will agree with me, that obviously the Minister of Finance intended under the wording of the proposed amendment and in its grammatical meaning, that the dominion would take possession without disturbing any rights of the provinces. You are a little afraid the courts might interpret it otherwise.

The WITNESS: Yes, and I am a little afraid that the Minister of Finance, as evidenced by one of the amendments which he has proposed, is not prepared to recognize that after the enactment of this legislation if it is enacted as now drafted, after the enactment there will be from that time on no right in the province. He has gone so far as to recognize that it would be absolutely improper to try by legislation at the present moment to affect a pending and existing right and to wipe away the effect of the judgments that have been rendered, but in so far as the future is concerned then I am afraid that the Minister of Finance is endeavouring to gather into the dominion that which properly belongs to the provinces.

By Mr. Tucker:

Q. In that regard is it not true that in the case of a conflict between property and civil rights and banking that if one enters the field and the other does not, the one that is in the field is liable to have his legislation upheld? The provinces are liable to have their legislation upheld because the federal government have not entered the field, and by virtue of not entering the field they let a body of decisions be built up which really, in the long run, if they were both in the field, would take into provincial jurisdiction what would properly be in federal jurisdiction? Are you not asking the federal government to stay out of the field in order that the province may consolidate their position and so that later on it would be impossible for them to enter? Is that not the effect of your submission?—A. No, I would not say that. I think you are

possibly under a slight misapprehension as to the open field. I think the proper doctrine is this: everything which is of the essence of banking belongs exclusively to the dominion field; in so far as any legislation on banking of the dominion entrenches upon provincial ground then it is *intra vires*. For instance, the old section 115 is ancillary legislation to the essential operations of the bank, but under the pretext of banking or any other field attributed to the dominion it cannot invade provincial rights, that is property and civil rights in the province, even though on a topic that the province would not have legislation upon up to that time. When either the provinces or the dominion encroach upon one another's field it must be inherently related to that field which has been granted. Property and civil rights is not a field in which the dominion, in my submission, or rather in that of the Attorney-General of Quebec, can ride and supplement what the provinces have not yet done which is their own absolute field, their own exclusive field.

Q. Is it not true that if by legislating within the field of banking the federal government actually impinges on the field of property and civil rights, and it can be properly said to come within both fields, that the federal government jurisdiction will prevail, and therefore if you can keep the federal government out long enough to get your provincial legislation upheld then you consolidate your position?—A. I think the answer to your question, without entering into a long legal discussion, would be found in the judgment of the Privy Council in the Tenant and Union Bank case.

Q. I am familiar with that case, and it is quite clear when you say that the matter is definitely within property and civil rights and therefore banking jurisdiction does not cover it you are begging the question. If it is clearly within property and civil rights and the federal government have not legislated in the matter then, of course, it is much easier for a court to find the Act is *intra vires* the province, but if the federal government legislating under banking have entered the field and they come in conflict then, of course, the courts have a more difficult job in deciding, and they are more likely to weigh the thing properly when they both enter the field than when one is in there and the other does not enter. Is that not correct?—A. Not quite; let me put your proposition conversely. The B.N.A. Act gives exclusive jurisdiction to the dominion as regards banking and banking operations. Suppose the dominion have not any Bank Act. That would not allow the provinces to legislate and set up chartered banks.

Q. But conversely we have got exclusive jurisdiction on banking and insolvency; the provinces passed acts in regard to insolvency which were held *intra vires* the provinces until the dominion entered the field and then these acts had to give way to dominion jurisdiction? Is that not correct?—A. As long as it was exclusively and essentially insolvency. If this new legislation with the proposed amendment is essentially banking then my argument naturally falls to the ground.

By Mr. Graham:

Q. Just to inform us, because I am not very familiar with the practice, prior to this amendment if funds in the possession of a chartered bank in the province of Quebec were subject to escheat who got them?—A. Once escheat could be established through the establishment, for instance, of a vacant estate, it belonged to the province. There is no question about that. I would like to explain the aim and the object—and the committee is entitled to know

this—of the legislation in the province of Quebec. After a certain time it becomes very difficult to establish and bring forward proper proof of the death of somebody even after 100 years. You may be unable to locate the heirs. You cannot establish there are none who exist and therefore under this power of defining what are *bona vacantia*, or vacant rights, they passed this legislation which is in accord with the general economy of our legal system in the province of Quebec that everything after 30 years is lost to the owner who has neglected it, either to a squatter or anybody else who takes possession.

Q. So that under this legislation dealing with unclaimed bank balances if the province could find out who actually owned a deposit and established that escheat applied this would not prevent you going to the Bank of Canada then and getting that under the law of escheat?—A. Oh, no. If to-day we find, for instance, somebody whom we know to be a depositor dies and then establish he has no heirs, or that the heirs who are there renounce succession, renounce the estate, we take it.

Q. But that is before it would go to the dominion?—A. Then it does not go to the dominion at all because under section 109 all royalties and *bona vacantia* belong to the Crown in the right of the province with the exception, of course, of certain cases such as Alberta and Saskatchewan under the statute which created their provincial existence.

Q. And that right would not be disturbed by this amendment?—A. That particular right would not be disturbed. I wish to draw your attention to the fact that the factum as submitted on behalf of the province, and as contained in the minutes of May 31, 1944, was prepared very, very hurriedly because we were under the impression when we received notice, and when I was retained, that we would be obliged to appear possibly within two or three days. It is stated in that factum in paragraph 7 that:—

Under the existing law section 115 of the Bank Act—which disappears entirely in Bill 91—provides for the transfer to the Minister of Finance of unclaimed deposits in the eventualities therein mentioned.

That, of course, was a mistake of mine, and also of the Attorney-General, because the old section 115 appears now as the new section 119.

The co-relation of the figures followed right down to section 112 and section 114. Then the new section 115 had no reference to the old one, so we just by mistake took it for granted that it had disappeared. So that is why I say that section 92 introduces a totally new law, because section 115, now section 119, remains. In virtue of section 119 and the law as it now stands, where a bank winds up, whether voluntarily or as a result of bankruptcy or winding up, or surrenders its charter, then all unclaimed balances are turned over to the Minister of Finance. It is not proposed to change that legislation, as far as I understand it. That necessity of a new depository in the event of the winding up of the business of the bank or its insolvency is, in our submission, ancillary to, or essential to the appropriate carrying out of the Bank Act. Because the bank going out and disappearing, some other depository must, of necessity, be found; and that section is quite proper legislation because it is ancillary to the carrying out of the provisions of the Act. Just as in the various provinces, when there is a conflict sometimes between creditors as to the debt which one debtor acknowledges but does not know to whom he should pay it, the debtor may deposit the amount in the hands of the provincial treasurer, likewise in the case of banks which pass out, the Minister of Finance becomes the substitute for the banks, and the depository of those funds, subject to the same obligations as the bank which is passing out of the picture was subject to.

By an amendment—and I think I should take that amendment at this stage because it forms part of the corpus of the main argument—proposed

by the Minister of Finance, subsection 8, "Nothing contained in this section shall affect any right in respect of any debt owing by a bank mentioned in subsection 3 hereof which His Majesty in right of any province may have exercised or been entitled to exercise at the time of the coming into force of this Act." That clause provides that the provincial rights are not affected up to the enactment of this legislation, and has no restrictive effect; but as and from the date when the new Bank Act is sanctioned, if that clause remains in there, then in the view of the dominion the rights of the province, whatever rights they may have had in the past on that subject, cease; and that is, in the submission of Quebec, the objectionable feature of this new legislation.

I might perhaps quote in this connection from the letter of the Attorney General of Quebec to the Minister of Finance at the beginning of July; where he says:—

If you have no intention of taking away provincial rights, I fail to see why you should not be prepared to have subsection 8 unrestricted, which would remove any objection on our part. If, on the other hand, it is not intended that all provincial rights should be safeguarded, then the proposed legislation must be *ultra vires* to this extent. That the dominion parliament cannot use its legislative power for the purpose of appropriating to itself provincial sources of revenue is established by the highest judicial authorities such as the decision of the Privy Council in the fisheries case and the decision of the Supreme Court of Canada in the waterpowers revision.

So that is, in a word, our fundamental objection to this new legislation which has been proposed. We submit that it is not advisable, when legislating anew, to provide clauses which are of doubtful jurisdiction, which will have the inevitable effect, I am afraid, of renewing conflicts of jurisdiction and renewing litigation between the federal and the provincial governments.

By Mr. Kinley:

Q. Mr. Chairman, I suppose the witness claims that these unclaimed balances are property within the province. Is that the idea?—A. Yes.

Q. And therefore they are property rights and subject to provincial law?—A. That is out contention. I perhaps should say this. If the contention of the provinces is wrong, and if the Privy Council declares their legislation *ultra vires*, then of course this automatically will be *intra vires* and the whole vexed problem will have been settled once and for all.

Q. I suppose money within a province is property?—A. I beg your pardon?

Q. Money within a province is property?—A. Oh, undoubtedly; undoubtedly. If, on the other hand, the Privy Council declares that provincial legislation *intra vires*, then I repeat that our fear is that we will have to litigate again with the dominion government over the same question, but over another clause of the Bank Act which is of possibly dubious interpretation; because the transfer which, under this proposed legislation, will be made to the Bank of Canada by the banks at the end of ten years operates as a full discharge to those banks. The contractual relationship between depositor and the bank is broken. There is what we call in Quebec novation of the debt, by the operation of the law, by substituting a new debtor and a new debt. What view of that the courts would take I am not in a position to say with certainty, and I do not think anybody is. But I do not think that we should encourage, at this stage, when there is no urgency in the matter, the possibility of that situation unfortunately coming about in the event of the confirmation by the Privy Council.

By Mr. Graham:

Q. There is only one thing that bothers me. Under the proposed amendment the claim of the owner of the money turned over by the chartered banks to the Bank of Canada under the section, is never barred by prescription or otherwise, is it?—A. No. That is not barred by prescription. The law remains the same as it was prior.

Q. So would the Bank of Canada, therefore, be in perpetuity the trustee for a possible claimant and still permit the provinces, if they could establish a right to escheat, the right to claim the moneys under escheat?—A. I do not think so. My opinion at the moment is this, that I think the claimant, the individual man, or his individual estate, if it can establish, would come under the term "creditor" as defined in subparagraph 7, but I fear, especially in view of the attitude taken by the Minister of Finance in not wishing to allow his amendment, subparagraph 8, to make it open, that the attitude of the dominion will be: Oh, but you, the province, are not the owner, and you have no claim.

Q. Nevertheless, at the same time you have the same claim against the Bank of Canada as the holder of those deposits as you have against the chartered banks as the holder of the deposits?—A. It is possible, but I can quite see where the contrary argument will be very strenuously made because, as a matter of fact, it was inferentially made to me in discussion yesterday with the Deputy Minister of Justice.

Q. What I have in mind is that I can see now that this could be easily argued to be merely a proper discharge of banking obligations taking unclaimed balances out of a private institution and putting them in the Bank of Canada, the trustee of the nation, with no claims barred by lapse of time; and I can see where one could easily argue that that is within the field of banking rather than within the field of property rights, because no attempt is made to claim the property as against either the province or the depositor?—A. What section 92 does at the present moment is to take money out of a solvent bank and pay it over to the Bank of Canada. By the operation of law itself then the banking transferor has discharged any or all liability toward the whole world.

Q. But the Bank of Canada does not claim to own it in its complete sense?—A. Then the Bank of Canada receives and takes this deposit and holds it; it is holding it as a trustee for the dominion. If the creditor does not claim it then if it holds it as trustee for the dominion does not the dominion become beneficiary and the real owner of it in the absence of an individual claimant, and is there not, therefore, a great danger that the province when it tries to assert its claim will be met with the denial of its right by the Bank of Canada, itself an emanation of the crown?

Q. I am wondering about this: under the rule as to presumption of death cannot the province exercise the rights underwent that are not taken away and at the end of the required seven-year period and after having made due search for this claimant as disclosed in the bank books—some address will be given—establish presumed death and that there are no heirs and claim under the law escheat under the Bank Act?—A. In that case I do not think there would be any difficulty on the part of the province, because that would be in accordance with the common law of the provinces at the time of confederation, and there it would become the legal heir; it would not necessarily have to wait thirty years, it might do it next month; but where it becomes the legal heir of the creditor by virtue of legislation, the statutory legislation of a couple of years ago, the question might have a different aspect. However, I am glad of these questions, because the more questions there are the more evident it becomes that there is a strong arguable case on both sides, and that is what it seems to

me we ought to endeavour at the present time to do in view of the pending legislation, and the fact that within a year we ought to have a judgment from the Privy Council which will set the matter at rest forever.

Mr. JEAN: What is your suggestion? To drop the amendment?

The WITNESS: Yes, to drop the amendment.

By Mr. Graham:

Q. To leave in section 115?—A. Yes, to leave in section 115 and drop section 92 for the moment. One objection that was made was this: Well, if we were not faced now with the necessity of revising the Bank Act for renewing the charters of the banks we might yield to you, but we do not want to have to amend the Bank Act afterwards. Now, I do not know that the Bank Act is any more sacrosanct legislation than the Corporation Act or the Criminal Code or than a lot of other measures of general application from day to day like the Bills of Exchange Act. There is nothing to prevent parliament from introducing an amendment next year with regard to section 92 if Quebec fails; but the chances are, gentlemen,—I say “chances” from an actuarial point of view of judicial statistics—so far five judges out of six in the province of Quebec have maintained the validity of the provincial legislation and five judges of the supreme court have done so,—now, the chances are that there are more chances in favour of the confirmation than reversal. That is far as as I will go.

By Mr. Jean:

Q. In your opinion there is no urgency to adopt this amendment now?—A. I do not see that there is any. There would have been urgency had section 115 disappeared. I can understand its importance in the event of a bank winding up or failing, or surrendering its charter and the unclaimed deposits must be deposited somewhere else; but that provision exists, and if the Privy Council confirms then I do not see that section 92 ought to bar.

By Mr. Tucker:

Q. Looking at the proposed new subsection after subsection 7 and assuming that legislation takes place, say, in 1945 a court looking at this legislation sees very clearly, “Nothing contained in this section shall effect any right in respect of any debt owing by a bank mentioned in subsection 3 hereof which His Majesty in right of any province may have exercised or been entitled to exercise at the time of the coming into force of this Act.” In other words, even if the litigation takes place two or three years from now the courts will look and see what were the rights at the time of the coming into force of this Act; so in effect the rights are all preserved. It seems to me to be clear?—A. Mr. Chairman, all the rights are preserved that will exist up to the time of the coming into force of this new legislation, but not thereafter. In other words, we may in 1945 recover unclaimed deposits which have lain dormant for thirty years up to the very end of, say, 1945; or let us say this legislation came into effect on the 1st July, 1945, we could claim everything up to that time; but we could not claim in 1946. We might sue in 1946 for deposits which we could have claimed in 1940 or 1941, because we are taking action so far as against the Bank of Montreal to recover deposits up to 1939. There are other banks from whom we might recover deposits provided we succeed in the Privy Council, the deposits which will become thirty-year deposits up to this year but not thereafter.

Mr. GRAHAM: Mr. Chairman, I feel that the witness is speaking not only for the Attorney General of Quebec but for the attorneys general of all the other

provinces. I would ask in order to facilitate matters—I think it is a very wide field of interest that has been placed before the committee—would the deputy minister be good enough to advise the committee as to how the department looks at it. Do you see any reason why this could not be dropped.

The CHAIRMAN: When the witness has finished I understand that the deputy minister is going to propose a reply.

The WITNESS: I really feel that the Attorney General of Quebec at the present moment is essentially acting on behalf of the people at large of this country; and it may be of interest to the committee to know that they only learned a couple of days ago that Alberta, Saskatchewan and Manitoba cabled instructions to London advising Messrs. Black and Redden to petition for leave to intervene.

Mr. HAZEN: We have had the statement made before us that in view of the fact that this matter is now before the Privy Council it would be a clear case of contempt of court for this section of the bill to be passed. What is your opinion as to that?

The WITNESS: Well, gentlemen, that is a little bit out of my line; but with great respect irrespective of who said that, I do not think that the dominion parliament even if it should make a mistake in legislation would be in contempt of court, nor any provincial legislature.

Mr. JEAN: If we were to adopt this amendment it might prove prejudicial to any advantage you might gain through a favourable decision before the Privy Council, might it not?

The WITNESS: In answer to Mr. Jean, Mr. Chairman, may I say that I am not familiar with parliamentary procedure, but if the Privy Council declares the provincial legislation is *intra vires* then it would be rather anomalous if section 92 or a part of it should not be deleted from the statute after the pronouncement; but again, it is not for me to say as to that.

Mr. GRAHAM: There might have to be another dominion-provincial conference.

Mr. RYAN: Why don't we hear from the deputy minister as to what the views of the department are.

The WITNESS: I would like to reserve my right possibly to say a word subsequently referring to section 4 of the Act.

Dr. CLARK: Mr. Chairman, this is largely a legal question and I am only a sea lawyer at best. I am going to ask Mr. Mundell of the Department of Justice to discuss the legal point in a moment. The question of policy and the point of principle in which Mr. Ilsley and the government were interested was expressed by Mr. Ilsley in the course of his speech in moving second reading of this bill on May 2nd, 1944, at page 2623, in reference to a statement which had been made by the Hon. Mr. Hanson; and the purpose is to preserve the general principle to which Mr. Graham referred a few minutes ago. He starts by saying:

The general principle as to the responsibility of a bank in respect of deposits made with it which has long been in effect in Canada, has been that the claim of a depositor is not barred or lost by reason of any statute of limitations or prescription, the responsibility of the bank being a continuing responsibility. I believe that this principle is just, and fundamental to maintaining confidence in the banking structure.

Then he goes on to discuss the amendment to the clause in the original bill, 92, and he goes on to say:

After the expiration of the twenty-year period the Bank of Canada will continue to be liable to pay the amount and the interest accumulated

during that period, but no further interest will accumulate. The governor in council may make regulations prescribing the time for payment by a bank to the Bank of Canada, the records to be maintained or kept by the bank with reference to a debt with respect to which payment is so made, the manner of payment of any claim against the Bank of Canada and the rate of interest to be paid by the Bank of Canada and the manner of computation thereof. The result of this amendment is that the principle I have referred to, that the claim of a depositor or his legal representative, to repayment of moneys deposited in a bank is not limited in time, is preserved, but unclaimed deposits, which formerly were retained indefinitely by the chartered banks will no longer be retained by them.

Now, we thought that we had met the claims and representations of three of the provinces; they are the only ones who have made representations in connection with the amendments that we have suggested. We have heard from Alberta that the amendment that we have made or have suggested here is acceptable in that province. Manitoba I believe had one objection; we have met that objection. And the case of Quebec is presented to you by Mr. Papineau-Couture here this morning.

On the question of urgency, I think the reason for introducing the amendment now is that this is the decennial revision of the Bank Act and it is not easy, to say the least, to introduce other amendments to the Bank Act after this occasion.

I will ask Mr. Mundell to discuss the legal point raised by Mr. Papineau-Couture.

MR. MUNDELL: Mr. Chairman, I have no prepared statement on the legal points raised by Mr. Couture, or on the section. I made a few notes while Mr. Couture was making his case, and I feel that I should deal with three points: first, the effect of the amendment; secondly, the constitutional position; and thirdly, the urgency from the legal point of view.

On the first point, as to the effect of the proposed clause 92 with the amendments proposed; in the first place, it preserves the principle referred to by Dr. Clark, that the claim of the depositor is never barred by time; under the amendment he will have his right against the chartered banks and after ten years that right will be transferred or changed into a right against the Bank of Canada which will never be barred by time. Then, secondly, it preserves in the cases referred to I think by Mr. Couture, if the provinces can prove bona vacantia in these cases the provinces will not use their rights to these moneys. Thirdly it preserves the rights of the provinces under any existing legislation which is valid. The point made there on the proposed subsection 8, the proposed subsection will preserve all the rights which are vested in the provinces up to the date of the amendment; that is to say in the case of the province of Quebec any deposits which are more than thirty years old up to the date of the enactment of this Act and which are now vested in the province of Quebec will continue to be vested in the province of Quebec. It does not cut those rights off. And, fourthly, the amendment in spite of the transfer from the chartered banks to the Bank of Canada preserves all the rights of the individual as a depositor. What he could claim against the chartered banks he can now claim that against the Bank of Canada; so he would be entitled to claim against the Bank of Canada. My interpretation of clause 92 is, therefore, that it does not change the position from the present circumstances except in so far as if the Quebec legislation is valid it will have the effect of destroying the principle I refer to, that a depositor can always claim back his deposits. The proposed amendment will override the Quebec legislation and preserve that principle. That is the only change.

That is my first point as to the effect of the amendment. Coming to the constitutional position I should like to deal first with the two cases mentioned by Mr. Couture, the Manitoba case and then the Quebec case. The Manitoba case is not really relevant because it was a case involving unclaimed dividends in a trust company. It did not involve a bank; it involved a question of unclaimed deposits in a trust company, as I recall.

The WITNESS: They were unclaimed deposits deposited in a financial institution, a trust company.

Mr. MUNDELL: So that from a constitutional point of view the question of the power to legislate on banking did not enter into the picture, and therefore the case is not strictly relevant. Further, from the point of view of the appeal there were a number of other points in the case in addition to the constitutional point, and the judgment might easily have gone off on any of those other points, so that as a test case it was not a happy case to select or to use as a test case. Secondly, as regards the Quebec case the lower court and the appeal court of Quebec have held the Quebec legislation to be *intra vires*, but the view we take of the legislation is it is *ultra vires* and we hope or anticipate that the Privy Council will so rule. As a matter of fact, we have no hope on the question but we anticipate that the Privy Council will so rule.

The basis of our view that the Quebec legislation is *ultra vires* is that the relation of the depositor and bank is fundamentally a relationship of banking, that it is of the very essence of banking, and that provincial legislation cannot be enacted to affect that relationship directly in respect of a bank. This Quebec legislation relates to credit institutions accepting deposits. That is, in our view, directed at banks and legislation in relation to banking. That is the point where we feel that the legislation is *ultra vires*.

Secondly, on the constitutional point I might clear up one slight confusion, what we view as a confusion, that has arisen. That is this. A deposit in a bank is not a physical asset in the province. It is a contractual right to repayment; it is a debt owing by the bank and therefore it does not fall within property, so to speak. It is a question of civil rights. It is well established under the British North America Act that property and civil rights in section 92 are to be read as excluding such spheres of property and such civil rights as are referred to in section 91. The relationship of a bank and its depositors, the debt owing by the bank, falls under banking and is therefore excluded from the civil rights referred to in section 92, and the province has no authority to deal with those civil rights. The confusion between physical money taken in and put in the bank and the obligation of the bank gives the impression that parliament is legislating with relation to some physical asset belonging to an individual in the province. It is, in fact, legislating in relation to the relationship of the bank and the deposits.

That is the view which is taken by our department with reference to the validity of the Quebec statute. Further, we feel that clause 92 is clearly *intra vires* of parliament because it is strictly in relation to banking. For the same reasons that the Quebec legislation is *ultra vires* the dominion legislation is *intra vires*.

Coming to the third point the necessity of the amendment from a purely legal point of view is that if the Quebec legislation is *ultra vires* and is held *ultra vires* by the Privy Council the position under the Bank Act as it stands at the present time would continue, that is, that the chartered banks will continue to hold deposits indefinitely although no claim is made in respect of them. That is the position which the Minister of Finance, I understand, wishes to correct. If a claim has not been made for a considerable period of time then the money should be handed to the Bank of Canada and the liability transferred to the Bank of Canada. That can be dealt with in the present revision.

If, on the other hand, the Quebec legislation is held *intra vires* then it destroys the principle that a depositor can always claim his money from the bank. There is no time limit which runs against the bank on his right to a deposit.

Mr. GRAHAM: The Quebec legislation extinguishes the right of the depositor to claim after a period of thirty years?

Mr. MUNDELL: Yes.

Mr. MACDONALD (Brantford): That does not apply in our Bank Act? Is there any period in the Bank Act?

Mr. MUNDELL: No. The present position is that the right of the depositor is unlimited.

The WITNESS: His claim is never outlawed.

Mr. MUNDELL: If the Quebec legislation is held valid the effect would be a breach of this principle. On the other hand, for the reasons given by Mr. Tucker, it is quite possible both pieces of legislation can be *intra vires*, but if the dominion legislation is *intra vires* and affects the same subject-matter it overrides the provincial legislation. That arises by reason of the double aspect rule, that a thing of one aspect for one purpose may be within the provincial sphere and another aspect for another purpose may be within the dominion sphere.

If I may summarize my rather confused comments on the position from the point of view of enacting legislation at the moment, if the Quebec legislation is *ultra vires* then there is every reason to enact the present legislation from a purely legal point of view. If the Quebec legislation is held *intra vires* there is still the same reason to enact it because the proposed clause 92 would still be *intra vires* the parliament of Canada. I think that is about all. I think I did mention earlier that clause 92 would preserve the rights of the provinces to claim *bona vacantia* if they can prove it.

The WITNESS: Mr. Chairman, were my learned friend to speak on the effect of section 92 judicially, if he were the Lord Chancellor sitting in the Privy Council, I would feel a little bit more reassured, but we all know whatever may be individual opinion as to the effect of the text of a law, whether it be that of the minister himself, that of the Attorney-General of Canada himself, his own personal opinion, that is not at all binding on the courts and that does not make it *res judicata*.

" It is not a final pronouncement. I hope that Mr. Mundell may be right, but I am not at all sure that a court would take the same view of it. The Attorney General of Quebec has been advised to the same effect by other counsel than myself. He was advised that "the effect of the text is not to leave intact the question of the ownership of the deposit, but to dispose of it by discharging the bank and by substituting for the contractual recourse which existed before a new statutory recourse. Is this statutory recourse in such terms as to preserve the rights of the provincial government? We do not believe so, because the definition of "creditor" is such that the courts might well judge that it is not applicable to His Majesty in the right of the province acting as owner of the *bona vacantia*. Does not this new paragraph which the Minister of Finance declares himself ready to add—that is subsection 8—imply this interpretation? Is it sufficient? We do not believe so, because the only rights safeguarded are those already vested in His Majesty in the right of the provinces at the time of the coming into force of the law and not those which His Majesty in the right of the provinces would acquire after the enactment of this law." Evidently, from the constitutional point of view, rights to accrue are far more important than rights accrued up to now..

So that the main objection to the text proposed by the Minister of Finance is that, even with the modification which he is ready to grant, the proposed text is of a nature to prejudicially affect the rights of the province, the right to eventually become the owners of the deposits in question as royalties in virtue of section 109 of the B.N.A. Act.

By Mr. Macdonald (Brantford):

Q. Have you an amendment to propose?—A. Well, the amendment is restrictive.

Q. Yes. But I am asking if you have another amendment to suggest.—A. Yes. If instead of saying, "At the time of the coming into force of this Act" you said that "Nothing contained in this section shall affect any right in respect of any debt owing by a bank mentioned in subsection three hereof which His Majesty in right of any province may have exercised or be entitled to exercise at any time" it would meet the situation; in other words, just as if this section 92 were not enacted. It is to clarify the situation. If the Minister of Finance is prepared to yield on that point, then naturally our objection would disappear.

By Mr. Jean:

Q. You propose that as an amendment?—A. Well, I would naturally want to sit down, Mr. Jean, and draft it carefully. But I might say that is, in substance my idea—that nothing in section 92 should prejudicially affect any rights belonging to His Majesty in the right of the province of Quebec. I do not mean it to apply to the province of Quebec only; it applies naturally to the whole country. You cannot discriminate in favour of one province as against another. That is what I mean. I mean to say, if the committee approves of the idea of that suggestion, it will be a very simple matter, I think, with the legal advisers of the Minister of Finance and of the Department of Justice, for us to word that in such a way as is necessary to accomplish it. I am sure we could do it during the adjournment.

Mr. MUNDELL: Possibly I could answer that now.

The WITNESS: Yes?

Mr. MUNDELL: The effect of that amendment, as I understood it, would be this, Mr. Couture. Clause 92 is designed to preserve the principle that the right of a depositor will continue forever. The effect of that amendment would be to destroy that right if His Majesty in the right of the province comes in and takes the place of the depositor.

The WITNESS: In one word, I think the crux of the matter is this, Mr. Chairman. If by the word "creditor" you will include or you imply and you recognize absolutely that in certain cases the provinces become the creditors by statutory enactment, then well and good.

Mr. MUNDELL: That would cut off the right of the province.

The WITNESS: Because we are not sure, with the definition of "creditor" in paragraph 7, section 92, whether a court would consider at the present moment that either the province of Manitoba or the province of Quebec, the two provinces which have legislated on the subject, would be recognized as the creditor in that case by the dominion.

By Mr. Tucker:

Q. Would it not be better to ask for the definition of "creditor"? That would be a better solution, would it not?—A. These questions of constitutional law are mighty delicate and ticklish; and the more judges who pass upon them,

the more difficult they become. It seems to me that the amendments suggested by the Minister of Finance, if he would be just a little bit more generous, would meet our view better, and with less danger of controversy later on.

By Hon. Mr. Ilsley:

Q. Mr. Couture, you are suggesting that the situation be left in this way: that a province may come in and legislate the depositor out of his right to his money—is that not so?—and that we want to make it clear in this legislation that if a province could do that but for this legislation, it might still continue to do it in the future?—A. I think you have put the matter rather fairly. The province does interfere by, for instance, preventing a depositor from withdrawing his deposit in certain cases, by appointing a guardian to him or appointing a curator to him, by fixing his successors in the event of his death.

Q. Yes?—A. Or in the event of his losing his mind, or in the event of his absence for a certain length of time, although he may not be presumed dead, in order that he and his estate may be eventually protected and so on, by appointing somebody especially to look after his assets or by entrusting them in the custody of somebody. All this interference by the province is exclusively within the field of a province.

The CHAIRMAN: Order, please, gentlemen. Less conversation.

By Hon. Mr. Ilsley:

Q. Are they not of a different quality in character from a deprivation of the depositor—or any body acting on his behalf—of the money?—A. So far as Quebec is concerned, I would reply to the Minister of Finance that I do not think so, for this reason. The whole economy of our law is that nothing is to remain *in vacuo*, as it were, for a period greater than thirty years. If a man leaves his property—

The CHAIRMAN: Just a minute, Mr. Couture. May we have less conversation, gentlemen, because we find it very difficult to follow the argument.

The WITNESS: If a man abandons or neglects a piece of property, and his neighbour comes there and installs himself and treats that property as if it were his own, and that goes on for a period of thirty years, without interruption or without objection by the true owner or his representatives, then at the end of thirty years that man becomes by the sole operation of law the owner of that property; he acquires possession of it. There is at least one member of the committee here who is quite well versed in Quebec law and who will bear me out in that statement. And it is in the light of that fundamental principle of our law that the Quebec legislature, in its wisdom, passed that legislation as regards all unclaimed deposits. My friend Mr. Mundell here has told you, Mr. Chairman, that a deposit in the bank—I do not know whether he meant it was not an asset—but that was argued in the courts time and time again. I have heard attorneys for banks submit reports in argument and contend by the argument that there was nothing left at all and nobody had a claim on that deposit at all; the thing had vanished into thin air. There was some sort of vague claim, but there was nothing that belonged to the depositor or that would ever belong to the depositor, and really there was no claim you could bring properly against the banks once you had confided the security or money—which is nothing at all because, after all, it is only a piece of paper—we are still glad to have it when it bears the signature of the Minister of Finance or the Governor of the Bank of Canada—but these are the lengths to which arguments have been made in serious cases before appellate tribunals, and that is all the more reason why the province is anxious that matters should not be disturbed at all until the final pronouncement of the judicial committee.

May I pass on to subsection 4 of section 92, these remarks being subject to the fundamental objection of the attorney general as to the principle of the whole section 92. An effort has been made in subsection 4 by the amendment to diminish the inconvenience which would have resulted from the original text submitted; that is to say that the Bank of Canada would be the depository only and all claims would have to be made to the Bank of Canada. That meant that we would have, as the Bank of Canada is an emanation of the crown—that a province in the right of the province would have to humbly petition His Majesty in the right of the dominion to be allowed to prosecute or to sue His Majesty in the right of the dominion; in other words, it would have been by petition of right in the exchequer court at Ottawa. That would have been catastrophic for the whole country. The Minister of Finance, since this was brought to his attention, has proposed the following subsection which is a great improvement. The exchequer court is ruled out and reference can be had to the bank branch in each province; but there is only one in each province; and can be enforced through the courts having jurisdiction with respect thereof. The Minister of Finance has gone two-thirds of the way in that amendment, and I should like him to go the whole three-thirds of the way; because under the present amendment it means this—

MR. GRAHAM: What do you suggest is three-thirds of the way?

THE WITNESS: Three-thirds of the way would mean that the present jurisdiction should not be altered. In other words, wherever the jurisdiction exists today by reason of the branch bank location that court should continue having jurisdiction although there is only one branch office in each province. At first they were inclined to agree and they said: We cannot confer jurisdiction on courts in the provinces, that is a provincial matter. But you are interfering with it now.

MR. JEAN: You contend that the prosecution could take place only before the court in Montreal as far as Quebec is concerned?

THE WITNESS: I do not want to restrict it to Montreal because a claim may be exercised not only by the crown in as far as the crown in the province of Quebec is concerned—the crown disappears—there is not much objection with regard to the crown; but there is as regards the individual depositor who wakes up at the end of fifteen years and finds his deposit has been transferred. He turns up in Gaspé where he made his deposit, and his family is there, and he has to travel up to Montreal or he has to come down from New Liskeard and go to Toronto; and the same condition exists in every province; therefore, to the small litigant it is a greater burden. It seems to me that on the ground of public policy every effort should be made to see that claimants are not put to any greater burden by this new legislation than they would have been.

HON. MR. ILSLEY: You want to leave it so that a poor unfortunate may be shut out entirely by any provincial legislation which wishes to shut him out. As a matter of fact, one provincial legislature has attempted to shut him out after twelve years. So that the fifteen year poor unfortunate who returns to some province—

THE CHAIRMAN: Returns to life.

HON. MR. ILSLEY: Yes—comes back, will find his money gone. That is what we do not like.

By Mr. Graham:

Q. As I understand the witness, he is assuming that the cause of action would arise where the defendant is located which, in his province, is in the city of Montreal?—A. Where the debt is—

Mr. McGEER: Where the deposit exists.

Mr. GRAHAM: I take it that all he asks is that jurisdiction be given to the courts—the county, superior or district courts in which the claimant or plaintiff resides; is not that your point?

Hon. Mr. ILSLEY: That is the present point; but the previous submission, which is the important submission, is that the province may be able to shut him out entirely. This is a matter where the man brings his action.

The WITNESS: Yes, that is my point. This legislation should not be disturbed—the jurisdiction or forum of the jurisdiction, where he can act.

Mr. GRAHAM: Is there any objection to that?

Hon. Mr. ILSLEY: I want to hear what the Department of Justice has to say about it.

Mr. NOSEWORTHY: Mr. Couture is saying in this second argument that the depositor is left in his right in that proposition in perpetuity.

Hon. Mr. ILSLEY: It is thirty years in Quebec; it is twelve years in some other provinces; it may be six years in some other provinces.

Mr. McGEER: If they make it thirty years, they can make it one year.

Hon. Mr. ILSLEY: Yes.

Mr. MUNDELL: The suggestion, as I understand it, is that the jurisdiction should be given to the county, district or superior court in which the claimant resides. The objection or difficulty that our department experiences with regard to that is that if the court has not jurisdiction under the provincial law in that respect then we do not feel that parliament can give jurisdiction to the provincial court, which it has not otherwise got in a matter of this kind. For example, if I may take a district court in Saskatchewan—I am not very familiar with the position there, but if I remember correctly it is limited in one respect; let us take a debt for \$800, the whole cause of action is limited to the district within which it arose. If a debt is owing in Regina and a claim is levied at Swift Current, the whole cause of action as I understand it would be Regina. Now the proposal would be to give to the district court of Swift Current jurisdiction to entertain an action even where the whole cause of the action is not in that district.

Mr. GRAHAM: Then I suggest that the wording as it presently is relates to the process of determining the jurisdiction, but under this wording you make it easier for the plaintiff if they wish to sue.

Mr. MUNDELL: Yes; and further I do not think parliament can do it.

Mr. MACDONALD (*Brantford*): You do not want to interfere with provincial jurisdiction.

Mr. MUNDELL: No.

Mr. TUCKER: What do you understand as to the jurisdiction of the court of the county or district as it relates to the Bank of Canada?

Mr. MUNDELL: I think that is a point you have some difficulty with. We feel that "in respect thereof" is as to the liability—shall be liable to pay at its branch in the province in which such debt was owing and payable—and, "such liability may be enforced by action against the Bank of Canada in the superior, county or district court having jurisdiction in respect thereof." I think the word jurisdiction is a hopeless word from the legal point of view. It has about five meanings. It would in the case I have put apply to both amounts and territorial jurisdiction.

Mr. TUCKER: Also, what court would have jurisdiction in respect of the Bank of Canada?

Mr. MUNDELL: We feel that is secured by the reference to "the superior, county or district court".

Mr. TUCKER: By action against the Bank of Canada either in the superior, county or district court having jurisdiction in respect thereof.

Mr. MUNDELL: And you will observe there is no reference to the Bank of Canada but to the liabilities.

Mr. TUCKER: I think it is pretty clear that it refers to the Bank of Canada.

Mr. PAPINEAU-COUTURE: Certainly.

Mr. MUNDELL: Our view is that it refers to the liability of the bank as a liability.

Mr. NOSEWORTHY: Can't you word it so it will be clear?

Mr. PAPINEAU-COUTURE: It seems to me that it should be worded carefully because, Mr. Chairman, the liability against the original bank under this legislation disappears when this legislation is adopted; we will no longer have any claim against the Bank of Montreal, the Royal Bank of Canada, or the Canadian Bank of Commerce or any other bank, and it is payable under this section by the Bank of Canada. All right; it is payable by the Bank of Canada at Ottawa, nowhere else. The amendment goes so far as to say that the Bank of Canada shall "be liable to pay at its branch in the province in which such debt was owing and payable"—and it goes on "such liability may be enforced by action against the Bank of Canada in the superior, county or district court having jurisdiction with respect thereof." Precisely what court has jurisdiction "in respect thereof"? It must be the court of domicile of that bank; and that is the district of Montreal, and there is no other which would have jurisdiction in the province of Quebec. (I am not speaking as to any of the other provinces.) That is where the new legislation is invading a new field of jurisdiction because it is substituting entirely a new debtor for an old debtor; and therefore it changes the jurisdiction of the courts *ipso facto*. Who has jurisdiction? If the dominion has the jurisdiction to change the debtor and as a consequence the jurisdiction of the courts, surely it has the jurisdiction in its wisdom to say, well there will only be the Bank of Canada that will be in the province of Quebec; but any court in the province which but for this legislation would have had the right to tell a branch bank that they had the right to enter a claim; or, in other words, that court would still be open to a claim. That is what I want.

Now, referring to a remark of the hon. the Minister of Finance a minute ago regarding the possible abuse by a provincial legislature which might legislate to take away an unclaimed deposit after a certain number of years; that angle was also submitted to our courts; it has been submitted in other cases to the Privy Council; and the Privy Council has said, any power of course can be one capable of abuse. When a case of abuse of power arises then we will deal with it. If a province abuses a clear right the dominion government has the right of disallowing that legislation, and that is a remedy. If you are going to be prevented from exercising that right under the pretext that the law may be abused then there will be no legislation in any jurisdiction anywhere at any time.

The CHAIRMAN: Gentlemen, we will adjourn to 4 o'clock this afternoon.

The Committee adjourned at 1.05 p.m. to meet again at 4 o'clock p.m.

(AFTERNOON SESSION)

The Committee resumed at 4 o'clock p.m.

The CHAIRMAN: Gentlemen, it has been suggested that we allow the clause under consideration to stand to see if an agreement can be reached by drafting. What is the pleasure of the committee? Shall we revert to clause 2?

Mr. MACDONALD (*Brantford*): Take clause 91.

Mr. McGEER: Before we proceed, Mr. Chairman, may I say that in the course of my remarks the other day I referred to the Municipal Bank of Birmingham as having been established by Austen Chamberlain; I should like to correct that statement. It was established by Neville Chamberlain.

Last evening at the close of the discussion I referred to the Governor of the Bank of Canada as having made a statement which was absolutely false. I was rather tired last evening and I did not choose my language as I should have chosen it, and I would like to withdraw that remark and extend my apologies to the Governor, because I do not think there was any intention on his part of making a statement to this committee which was absolutely false, and in view of the very high regard I have for him personally and for the work he has done as Governor of the Bank of Canada I can only say that I wish to extend my apologies to him and I hope he will accept them.

The CHAIRMAN: Thank you, Mr. McGeer. Shall we take up the interpretation clause—No. 2? Dr. Clark, will you explain what the amendments are?

Dr. CLARK: On clause 2, paragraph (e) line 2—I will come back to another one a little later—the first one in the printed sheet is paragraph (e) line 2: delete “or” and substitute “and” for the “or”. In other words, it will read: “‘Bills of lading’ includes all receipts for goods, wares or merchandise...”. That is the standard thing.

(Carried.)

In paragraph (z) line 34, on page 3 there is the same thing.

(Carried.)

And in line 40 there is the same thing.

(Carried.)

And we have another amendment in regard to paragraph (b) of clause 2, on the first page. You will remember that the Dominion Retail Federation pointed out that our amendments to this bill and also the Farm Improvement Loan Bill did not seem to make it possible for credit to be secured by farmers in order to purchase electric refrigerators, washing machines, and certain other types of equipment for use in the farm home. Now, to make that clear it is proposed that paragraph (b) of clause 2 be amended by adding the words “washing machines” after the word “churns” in line 19, and by adding the words “or for use in the farm home” after the words “farming operations” in line 21 thereof; and that part will read: “...churns, washing machines, spraying apparatus and incubators, and milking machines, refrigerators and heating appliances for farming operations or for use in the farm home of a kind not usually affixed to real or immovable property.”

Mr. McGEER: Don't you think that where washing machine is put in you pretty nearly limit home equipment to the washing machines, under the ejusdem generis rules?

Dr. CLARK: No, it continues on with washing machines, refrigerators, heating appliances for farming operations or for use in the farm home. As at present this might be interpreted to mean that we were only including refrigerators and heating appliances used in the productive operation of the farm. I think that with these two changes it will make it clear that the washing machines and refrigerators or any kind of heating appliances could be used in the farm home as well as in the barn.

Mr. MACDONALD (*Brantford*): Mr. McGeer's point is that you will limit it to washing machines, refrigerators, and heating appliances in the homes.

Mr. McGEER: Which is not the intention.

Mr. MACDONALD (*Brantford*): Don't you want to make it wider than that—to take in other things on the farm?

Dr. CLARK: What, for instance?"

Mr. MACDONALD (*Brantford*): Well, I can think of an ironer. There will be other things.

Mr. McGEER: If you put in "all other equipment" that might help.

Mr. TUCKER: The use of the word "or" covers both—"washing machines for use in farming operations or..."

Mr. MACDONALD (*Brantford*): It is limited to the three articles.

Dr. CLARK: I think the intention was to exclude radios, for instance.

Mr. KINLEY: What about a range in the kitchen?

Dr. CLARK: That would be a heating appliance.

Mr. KINLEY: It is a cooking appliance; I do not know whether it would be a heating appliance.

Mr. McGEER: Is there anything else which it was intended to exclude besides radios?

Dr. CLARK: No, I think just the consumers' needs, so to speak; the intention was, I think, to include everything that was productive.

Mr. McGEER: The requirements of a farm home.

Mr. CLARK: Yes.

Mr. McGEER: Why not add in the words "all other things"?

Dr. CLARK: Not furniture.

Mr. McGEER: Why not?

The CHAIRMAN: Having regard to the bill that is before the house now should not you include cradles and baby carriages?

Dr. CLARK: That is taken care of by the other bill.

Mr. KINLEY: I think you should put ranges in there, unless you are sure that heating means a heating range.

Dr. CLARK: Heating and cooking appliances. "Churns, spraying apparatus and incubators, and milking machines, washing machines, refrigerators and heating and cooking appliances for farming operations or for use in the farm home of a kind not usually affixed to a real or immovable property." (Carried).

The CHAIRMAN: Shall the clause carry as amended? (Carried).

The CHAIRMAN: Now, I think we agreed to leave 5 until about the end of our session. Are we ready to consider clause 20? I think the minister has a statement to make in connection with this clause.

Hon. Mr. ILSLEY: I have suggested an amendment and it is an important amendment, and one on which the banks should be heard before we carry it.

The proposed amendment reads:—

(a) clause 11, subsection 2: provided that in the case of not more than one-quarter of the number of provisional directors the minimum requirements of subscriptions to stock in paragraphs (a), (b) and (c) above shall be reduced to \$1,500, \$2,000 and \$2,500 respectively.

Without that amendment the qualifications for the directors of all the banks except one would be governed by section 20 (1) (c); that is that \$5,000 has been paid up. The full clause reads: "(c) \$5,000 has been paid up, when the paid up capital stock of a bank exceeds \$3,000,000. \$5,000 is quite a lot of money—I am afraid I will have to come back to that. I do not understand very well just what the present qualifications are; that can be discussed, but they are high—higher than I propose for directors—

Mr. JACKMAN: Fifty shares of stock, which at par value would be \$5,000.

Hon. Mr. ILSLEY: The qualification is fifty shares of stock now and of course the par value of the shares is \$100.

Mr. McGEER: That is \$5,000, that is exactly what you said.

Hon. Mr. ILSLEY: Yes.

Mr. JACKMAN: That is taken at par value.

Hon. Mr. ILSLEY: And this will reduce the investment necessary for a new director if he were buying the shares to qualify himself to be on that board. And now, there may be a serious objection to this amendment and the serious objection may be this; you would have two classes of directors, you would have the directors who require a pretty substantial investment to qualify and then another class of directors who would not need to invest so much money in bank shares for the purpose of qualifying. But the purpose of the amendment is to facilitate the selection of directors of small means. In my speech on the Bank Act I suggest that the banks ought to go beyond the circle in which they ordinarily secure their directors outside the class of income group from which they ordinarily select their directors and take on some representatives of agriculture, labour and people in small business. And that suggestion I think is a good suggestion, but many persons who perhaps would be otherwise well qualified to be the directors have not the means to avail themselves of the qualifying shares unless there is some relaxation of the present requirements in this connection.

Mr. McGEER: And it does fit in with the idea of the wide distribution of the shares on a breakdown of the capital value?

Hon. Mr. ILSLEY: Yes, it does. It is in line with the reduction of the par value of the shares. I am putting it before the committee for consideration, and I think the bankers ought to be heard on it because there are some objections to it.

Mr. JACKMAN: Before you call any of the bankers, is there any particular reason why we must have more than one class of shareholders for bank directors? Is it not possible from the practical point of view to reduce the whole thing to the new rates for all persons concerned? If these people have to go out on the market and buy their qualifying shares, they may have to pay two or three times the par value in order to obtain them. I do not know that it is very material whether a man invests \$4,000 or \$8,000 in order to qualify himself as a bank director if he is chosen. And I think it is rather invidious that certain directors, particularly if they represent labour, agriculture and the small merchants, should be distinguished from those directors who are from another class, those already on the board. Therefore I would suggest that consideration be given by the committee to reducing if necessary the qualifications for directors of banks to \$2,500 par value; which, as I said before, means that they will have to invest anywhere from \$3,000 to \$5,000 in actual investment in order to qualify to the acquisition of twenty-five shares.

Hon. Mr. ILSLEY: Let me state my views on that. They are certainly not inflexible, but if I had to vote at all on this, were I a member of the committee, I would vote for my amendment. There are three courses to pursue; one is to leave the qualification exactly as it is on the theory that the directors should have a material investment, perhaps one might say a substantial investment but not a great investment in the enterprise, but they should have a considerable investment in the enterprise of which they are directors. On that theory the clause should stay as it is. That is one course we might pursue.

Now, then, we go to the other extreme and reduce the qualifications very substantially, and that almost throws overboard the theory that I have enunciated which I think has quite a bit to commend it; I think that a majority of the directors, or quite a large number of the directors should be persons who have

a good substantial investment in the enterprise. I think that principle has a lot to commend it. And the third course to pursue is to have two classes of directors, so far as investment is concerned; and I do not see any objection to that myself. I said there might be serious objection that I do not know about, but I do not see any objection to that. I do not think there would be any; there should not be any feeling of inferiority or of less status at all, and I do not see there would be, as a matter of fact.

Mr. TUCKER: The only thing I am suggesting is this; I am looking at the thing from the standpoint of the public welfare and from the standpoint of the banks and the desirability of qualifying shareholders as directors in a way that will invite some elements representative of labour and farming and so on. I think you should at least lower the cost to them. Even taking the clause as it now stands, I think it should be still further reduced. There is no harm in putting a limit on a board of directors, my suggestion would be that it be reduced to \$1,000 worth of shares, because a man would probably have to pay \$2,000 or more for the qualifying shares, it would cost him pretty close to \$2,000 to qualify to be a director; and some of the shares as we know are now selling in the open market for around \$200 a share.

Mr. KINLEY: Lest we lose our sense of proportion I want to refer to some legislation passed by this parliament some years ago, I think it is the latest legislation in regard to what might be called co-operative enterprise in the west; and we talk about the regulation of monopoly or free enterprise in this country, we sometimes forget the provision we made here for this so-called private enterprise which is so monopolistic in its nature. I have here the Act which created the co-operatives which are subsidiaries of the wheat pool, which I think were formed purely for the purpose of getting under the co-operative development to get rid of income tax. However, I want to quote just for this purpose how they qualify their directors. It is section 10 of chapter 50 of the Acts of 1940, qualifications of directors,—

Notwithstanding the provisions of paragraph (b) of subsection 2 of section 6 of the Canadian and British Insurance Companies Act, 1932—

I think that section of the Insurance Companies Act says that a man must own shares in his own right—

any shareholder shall, if otherwise qualified thereunder, be deemed eligible to become a director of the company if the shares held in his own name are not held for his own use and absolutely in his own right, but are held for the use and absolutely in the right of a corporation of which he is an officer or director and which holds in its own name and for its own use and absolutely in its own right shares in the capital stock of the company to the amount of at least \$25,000.

That is how they qualify their directors in this Pool Insurance Company.

Mr. PERLEY: What organization is that?

Mr. KINLEY: It is an Act to incorporate the Pool Insurance Company.

Mr. McGEER: That is giving the corporation power but what has that got to do with an individual director?

Mr. KINLEY: They must represent the corporation and the corporation qualifies them by taking \$25,000 stock of the company.

Mr. McGEER: That has got nothing to do with an individual director.

Mr. KINLEY: It has got this to do with it; first, the individual director has no limit or responsibility in his own right. He is a dummy of somebody else. Then, it means that they must have a large share in the corporation before they can be a director, indicating that they have a great interest in it.

Mr. McGEER: He simply is representing, as the servant of the corporation, the corporation that owns the \$25,000 worth of shares.

Mr. KINLEY: Quite monopolistic, is it not?

Mr. McGEER: It has nothing to do with the point under consideration.

Mr. KINLEY: I am just trying to keep a good sense of balance in industry in this country and to show that monopolies exist outside of private and free enterprise in this country, and also that human nature is the same about everywhere. When they get charge of things they usually create conditions to their own satisfaction if they can. With regard to the directors of a bank I have not very much to say one way or the other except I do know this, that I have always found that when you had a body of directors who had very little interest in the company and had to do with things in which they were interested outside, or something of that sort, their loyalty was usually divided. A man cannot serve two masters. If you are a director of a corporation your interest is in that corporation. You are elected by the shareholders of that corporation to look after the interests of that corporation first of all.

Mr. TUCKER: Not regardless of everything else.

Mr. KINLEY: No, no, but at the same time you shall not be a director of that company at the expense of that company in the interests of another company which you might be interested in. There is this about the small director, too. If you have got directors elected who have a small share in the bank it puts too much power in the officers of the bank; it puts too much power in the men controlling the running of the bank because they are only dummy directors after all. They are only elected there by the grace of the people who may elect them, and they have not the same interest as if they had a larger share or interest in the bank which qualified them in their own right. It seems to me in so far as this legislation is concerned I do not think it makes much difference one way or the other, but there is no real reason why it should be changed. Laws usually are made and when they are wrong, if we find that a law is not serving the interests of the public we change it, but to change it just for fad or fancy because of some clamour or because of some feeling in this country that somebody should be destroyed or that someone should be attacked, seems to me to be not the right way to go about these things. For that reason I would say that a \$5,000 qualification for a man to be director of a bank is not excessive.

Hon. Mr. ILSLEY: It is a good deal more than \$5,000 in most cases. It is 50 shares.

Mr. McGEER: Of course, the real danger that you have not mentioned is if you get the qualification too low you might get a director there who would disclose the hidden reserve.

Mr. KINLEY: If you get it too low they have no power. They are just dummies of the men at the head. Furthermore, if it is too low they may have an interest in another place, and when they have to vote they will vote where their larger interest is because where man's treasure is there will his heart be also.

Mr. McGEER: Surely the dangers you fear are completely covered even if we accept the minister's suggestion by the voting power of the shareholders of the company. It would only be because of recommendation by a powerful group in the company that any director would be elected, and in the expanding of the banks and the public utility service they are now extending, I think the idea that the minister has of bringing labour and agriculture into the organization is one of the ways by which democracy can express itself in all its services. I am heartily in favour of the suggestion.

Mr. PERLEY: Mr. Chairman, I am in agreement with Mr. Tucker. I think there should be some consideration towards reducing this amount. Certainly I think it is in the interests of the institution itself to have a wider and more diversified representation on the board of directors. I cannot agree with Mr. Kinley. I certainly object to his first statement when he referred to this co-operative insurance company organizing, when he stated that most of the co-operatives were organized for the purpose of beating the income tax.

Mr. KINLEY: I did not say that.

Mr. PERLEY: That is practically what you said. I object to that because I know co-operatives have organized in the west and they certainly never had that intention at all.

Mr. McGEER: They are there to stay.

Mr. PERLEY: Coming to the question I say that I support Mr. Tucker. I think \$1,000 should be the limit. I think I brought it to the attention of the committee when we were discussing section 19 or section 20 before that there might be a director elected by the senior employees of the bank. Perhaps you would have to have some system of electing him, but they would be elected by other employees of the bank. I know there are a lot of fine men employed in the banks, for instance, managers out in the rural parts of the west and other places. I think that class of employee might well be represented on the board of directors. I am just making that as a suggestion. I do not know how well it will meet with the approval of the bankers. I want to support Mr. Tucker's suggestion.

Mr. MAYHEW: Mr. Chairman, I think if money is to be the qualification of a director then that should be as high as possible because then you are going to get a man really interested in it, but I do not think that money qualification should be the qualification. I think it should be experience, a man who knows something about banking business.

Mr. McGEER: And the needs of the community.

Mr. MAYHEW: And the needs of the community, yes, but I have had some little experience in connection with business and have been mixed up with men in syndicates and companies and depended very largely on the advice of men who had succeeded. I found when they only had a small interest in a thing I was interested in they did not do anything for it. They just let it drift along. More things that I have been in touch with have gone to rack and ruin and just simply lost out entirely because some man who had previously made a good reputation for himself had his name attached to that company. To me it has been a lure and a mistake because he did not take an interest in it. I would strongly support the idea of having a smaller financial stake in it but yet a man who understood what they were going to do and had an interest in the community and knowledge of the community. You might get him off the farm or you might get him out of industry or many other places, but I would keep the money qualification low but the qualifications in other respects high.

The CHAIRMAN: Gentlemen, I suggest we might shorten our discussion by having the wisdom of the bankers before us. Who will volunteer to speak for the bankers? Come around here, Mr. Dobson.

Mr. SYDNEY G. DOBSON, Vice-President and General Manager, The Royal Bank of Canada, called.

The WITNESS: When this amendment was made, or at least when the clause was changed reducing the par value of the shares, we naturally expected that the money qualifications of the directors would probably be reduced also.

But I must admit that I myself did not quite anticipate an amount as low as \$2,500. You will realize that A and B are practically out. It really applies to C, because that is the only type of bank that is operating in this country now.

Mr. TOMPKINS: With one exception.

The WITNESS: Outside of Barclays Bank (Canada), where there is little public stock held in Canada so far as I know. I had in mind something more than \$2,500, I must admit. On the other hand, I do not think that we could take any exception to \$2,500, but I would say that that is as low as we should go. I do not think we should go any lower than that. A man who would qualify for a director of a bank should be able, I think, to put up \$2,500.

By Mr. McIlraith:

Q. He would have to get more than \$2,500 to buy the stock.—A. More than par value, yes.

By Mr. Perley:

Q. May I ask how many farmers are represented on the board of directors? —A. I think, Mr. Perley, very few, if any. But I think also that the banks feel that they must do something about that, as has been suggested by the minister; and I think the banks are prepared to co-operate and to select farmer members for their boards. But there again I think the type of farmer that we would select for the board should be able to produce the amount of money required to produce that volume of shares, or that amount.

By Mr. Tucker:

Q. Do you think it would do very much harm if you allowed men on there with no more qualifications than a member of the House of Commons has to have? Do you think if they got one-eighth or even a quarter of the membership of the board with no more qualifications than a member of the House of Commons has to have, it would do any harm?—A. If the farmer has not the money, he will have very little difficulty in getting it.

Q. A member of the House of Commons does not have to have even \$100.

Mr. KINLEY: He has to have the confidence of a lot of people.

Mr. TUCKER: The man elected to be a bank director has to have the confidence of the shareholders; and if they have enough confidence to elect him to that fine, exalted position, surely they should not ask him to have in addition \$5,000 worth of shares that he has to purchase in the open market. If they really want to get a farmer on the board, and they have the right to pick him, they should not require a qualification that the average farmer could not possibly fulfil.

Mr. MAYHEW: We are not sent here by shareholders.

By Mr. McGeer:

Q. How many of your shareholders ever attend your annual meetings, Mr. Dobson? Could you give us an estimate of the percentage?—A. Actually in person?

Q. Yes.—A. I do not know. They vote by proxy to a large percentage.

Q. Yes. As a matter of fact, they vote by proxy and the vote is actually handled by the managerial organization of the banks in whom the shareholders have confidence?—A. Yes.

Q. Quite irrespective of what the money requirements are, nobody can become a director of any Canadian bank unless he has the approval of the controlling power of the shareholders' vote. I mean, after all, the money

qualification is not a very serious thing, is it?—A. It is not, I suppose, no. But at the same time I would say that I do not imagine that they would appoint a man who did not have the money qualifications to some extent.

Q. What I think the minister has in mind is that the banks will extend an invitation to labour and agriculture to co-operate with them by having representatives on the board.

Hon. Mr. ILSLEY: Yes.

Mr. McGEER: And that those men would not come because of the money qualification, but more because of the representative capacity of the group that they are representing; I mean, somebody nominated by the Trades and Labour Council of Canada, for instance, or somebody nominated by an agricultural organization or somebody in high standing in those representative roles. I do not know just how it would be done, but it does not seem to me that the money qualification would affect in the least the directorate on any of our Canadian banks under the present controls and under the present methods by which the directors are appointed.

The CHAIRMAN: Mr. Macdonald has the floor.

Mr. MACDONALD (*Brantford*): Mr. Chairman, since the commencement of the sittings of this committee—

The CHAIRMAN: Do not go, Mr. Dobson.

Mr. MACDONALD (*Brantford*): No. I am going to ask a question eventually of Mr. Dobson. I say since the commencement of the sittings of this committee a number of people have written to me with respect to the directorate, and apparently there is a feeling throughout the country that the directorate is in the hands of a certain class of people and that the directorate should represent more citizens of Canada, that it should represent practically all the citizens of Canada, because all the citizens of Canada are doing business with the banks. I think the suggestion of the minister that representative farmers and representatives of labour should be on these boards is a very good one and is certainly a step in the right direction, if it can be carried out. Some man wrote to me, and while I have not the letter, if I remember correctly—he said that in one bank three-quarters or at least 80 per cent of the directors lived in the cities of Montreal and Toronto. He felt that the directorate was in those centres, and he felt again that the whole country should be represented on the boards of the banks. Another man writing me made three suggestions which I should like to have your opinion on, Mr. Dobson. They are as follows. Where there are more than twenty shareholders in any province in the dominion of any bank, that the electors representing the bank in that province be elected by the shareholders living in that province.

The WITNESS: I do not think that is very feasible.

Mr. MACDONALD (*Brantford*): You do not think that would be feasible. You see, at the present time if the majority of the shareholders happened to live in Toronto and Montreal, the few shareholders who might live in Vancouver have no say as to who is going to be represented in Vancouver.

The WITNESS: May I take a few minutes of the committee's time to explain the set-up?

The CHAIRMAN: That is what we want, Mr. Dobson.

Mr. MACDONALD (*Brantford*): Yes.

The WITNESS: I refer to the set-up of the Canadian banks for lending money. This all leads into the question of directors. I will tell you how our own institution is set up for that purpose. We have 550 independent branches in Canada. I say independent, because there are 30 special branches or sub-agencies—

By Mr. Tucker:

Q. Would you repeat that? I am sorry, but I could not hear it.—A. We have 550 independent branches. There are 30 special branches which are not independent. They go under another management. Each manager has discretionary loaning limit. That loaning limit, at the smallest point, is \$1,000 and then it rises to \$10,000. I am giving you the history of our own institution; while the other banks are not exactly the same, they follow somewhat along that same line. The loan limit changes according to the size of the community and perhaps the experience of the manager, but the high point with us is \$10,000. So that the manager at the smallest point can loan \$1,000 without reference to anybody. In addition to that, the bank is divided into sections. We will start in the far east, or at least in the east. At Halifax we have a supervisor who is supervisor of the branches in Nova Scotia and Prince Edward Island. He has a local board of three directors and they have power to grant credit up to \$25,000 without reference to anyone else. By "anyone else" I mean head office. They do that on their own. Credits in excess of \$25,000 are sent along with their recommendation to Montreal. So in a sense it is separate. We have a director in Saint John who sits in with the management, and one in Quebec. In Montreal we have twelve directors that constitute the main board of directors.

By Mr. Macdonald (Brantford):

Q. What is the total board of directors?—A. Twenty-eight. For geographical reasons in part of Quebec and a section of the triangle between Prescott and Ottawa branch managers all send their applications into head office and there the executive officers authorize on their own up to \$100,000. Now we come to Toronto. There we have an assistant general manager, a supervisor and five directors, and those directors are located, two at Toronto, one at London, one at Galt, and one at Oshawa. Now, those directors, with the assistant general manager, have authority to make loans on their own up to \$100,000; anything in excess of that goes with their recommendation to the head office in Montreal. We come now to Winnipeg where we have a supervisor with two directors who likewise can authorize credits up to \$100,000.

Q. Do they take in all the prairie provinces?—A. No, Manitoba. In Saskatchewan, we have a supervisor, and there, unfortunately, we have no director. I think that is the blank space in the family. The supervisor in Saskatchewan has authority to grant loans on his own responsibility up to \$25,000, so when anyone talks about the necessity of referring farm loans from Saskatchewan to Montreal he is talking about something about which he has little knowledge, because the supervisor deals with loans up to \$25,000.

In Calgary we have a supervisor and one director with authority to loan up to \$25,000. In Vancouver there is a supervisor with two directors and they have authority to deal up to \$25,000.

Now, they recommend to head office credits in excess of \$25,000; up to \$100,000 such credits are authorized by the executive at head office and amounts over \$100,000 go to the board of directors in Montreal. So that the board of directors in Montreal do not pass on credits under \$100,000. They see all credits that are passed between \$25,000 and \$100,000 for their information, but they do not deal with credits that are lower than \$100,000. The supervisors transfer staff, except managers, and take care of all minor alterations or improvements in offices, so that to a very considerable extent we feel that they form a group of provincial organizations. These directors are not all located at one place—they are right across the country. I think, to some extent that answers your question.

Q. It answers my question to a certain extent, but the point that was raised was that you may have directors across Canada at various points, indi-

viduals who are elected by the shareholders probably living in Ontario and Quebec, and the suggestion that was made by my correspondent is that the shareholders living in the province should select the directors?—A. I will tell you, that is not exactly how it works. When the question of a new director comes up and we want a director, say, in Nova Scotia, the president or perhaps the vice-president and the executive officers, consult with directors, perhaps in Nova Scotia, as to who might be the best man, and after a good deal of consideration and thought—because there is a good deal of consideration and thought given to such matters—they may decide upon a man. Then that name is put up to the main body of directors; and I will say this that it is very rarely indeed that the main body of directors turn down the recommendation of the executive officers and the local directors.

Q. And then at the next annual meeting the appointment of that director is confirmed by the shareholders?—A. He is elected at that time. When the next annual meeting comes along his name is on the ballot with all the rest.

Q. He is appointed in the meantime and elected by the shareholders?—A. Yes.

Mr. KINLEY: Unless there is a vacancy, he is elected by the shareholders in the first instance.

The WITNESS: Yes.

By Mr. Macdonald (Brantford):

Q. I understood that Mr. Dobson was speaking of a vacancy. Now, I will leave that point, and the next suggestion given to me by this correspondent is that the qualifications of the directors should be such that shareholders of moderate holdings be eligible for election. I think you are in accord with that?—A. Yes.

Q. That is in accord with the suggestion that has now been made by the minister?—A. Yes.

Mr. JACKMAN: What is moderate?

Mr. MACDONALD (*Brantford*): Moderate holdings? I take it that the amount suggested by the minister is a moderate holding.

Mr. TUCKER: It depends on whether you come from Ontario or Saskatchewan.

Mr. MACDONALD (*Brantford*): I agree that this is a matter of degree. I am not going to say now what is a moderate holding, but in my opinion the suggestion made by the minister is moderate.

By Mr. Macdonald (Brantford):

Q. There is also the suggestion that a representative of the shareholders, other than the director, be appointed to attend the annual meeting of the bank, expenses of same to be paid by the bank. The shareholders of the banks scattered throughout Canada feel that the director has been appointed and elected by the shareholders living in the larger centres. Now, this correspondent suggests that a shareholder in each province who is not a director be appointed by the shareholders for the purpose of attending annual meetings?—A. That would be a very difficult thing to do, I am afraid; you might make a lot of enemies by passing somebody up. I do not think that is a practical thing.

Mr. TUCKER: The witness says the directors really appoint the directors themselves and the shareholders concur.

Mr. MACDONALD (*Brantford*): No, he did not say that. By the Act the directors are elected by the shareholders, but as Mr. Tucker knows in the

by-laws there is also provision that if a director should die between the annual meetings then his successor is appointed by the directors, subject to election at the next annual meeting.

Mr. TUCKER: I think Mr. Dobson will confirm that the man chosen by the directors to be added to the board has never been turned down by the shareholders in all the history of the bank.

Mr. McNEVIN: Mr. Chairman, I think there is a widespread feeling with regard to the interlocking of directorates. For that reason I fully concur in the suggestion that a standard be set to where it will at least be easier to elect a director of a bank of, perhaps, less means than is the case at the present time. Now, as it appears at the present time, I believe that the clauses are not really effective. The \$2,500 limit at par has taken the place of the \$5,000 at par; as the section that we are really now discussing stands. After all, that is cutting it right in two for a start, and the suggestion has been made that farm organizations and labour organizations would perhaps have an opportunity of making a nomination. Well, if they did, the natural persons to nominate would be one of the leaders, say of one of the large farm organizations, of one of the large labour organizations—they would take for instance a man like Mr. Tom Moore. My view is that if a director is going to serve not only the bank but the community efficiently and effectively he must have a reasonable personal interest in the institution; because after all I think that is the way to get the very best service. And I am rather inclined of the view that we should go step by step, and if we have to give a financial qualification or set a financial limit, cutting it in two is the first step. To my mind I think it is a progressive step and I am prepared to agree to that.

Hon. Mr. ILSLEY: I may say that I did not have in mind nominations by organizations.

Mr. McNEVIN: No, I think that was mentioned by Mr. Tucker.

Mr. McGEER: It is not in the legislation.

Mr. McNEVIN: It is quite possible that a man would be nominated in that way. It is not covered in the legislation but what would almost naturally be bound to happen would be that an organization would nominate one of its leaders on a bank directorate. I suggest to you that if the banks had a vacancy on their board of directors, they would not have much difficulty by simply casting their eyes around in picking up a very able farmer, labour or professional man of any kind they might desire; and I would suggest further that if they do find some sort of outstanding young man, or individual of promise they will not have very great difficulty in qualifying him to sit on the directorate of the bank, that would be quite easily taken care of, I imagine.

By Mr. McGeer:

Q. What did you say the amount was in Manitoba?—A. \$100,000. You might naturally ask that question, why should it be \$100,000; but that ties in with the old Union Bank and the Northern Crown Bank days—we took over those two banks there.

Q. Why \$25,000 in Vancouver and \$100,000 in Winnipeg?—A. We will have to rectify the Vancouver one.

The CHAIRMAN: Just before Mr. Dobson retires, I want to say that he ought to look up the record of his directors, because I have a very good friend of mine within five miles of my own farm, and he is a director of your bank, and a good farmer.

By Mr. Perley:

Q. I was going to ask if it would not be a good idea to have some of the senior employees represented on your directorate?—A. You cannot elect one

class of director, such as the staff. I am not opposed to the suggestion at all, I happen to be a senior officer myself. I do not think you could have the staff electing a director. I do not think it would be very practical.

Witness retired.

The CHAIRMAN: Shall the amendment carry? Carried. Shall the clauses amended carry: carried.

Hon. Mr. ILSLEY: May we now take clause 11.

The CHAIRMAN: Clause 11, subsection 2.

Hon. Mr. ILSLEY: The suggested amendment is the same amendment as that which we have been discussing and it applies to provisional directors in clause 11. I do not need to read it. It reduces the qualifications for the provisional directors in the same way.

The CHAIRMAN: Shall the amendment carry: carried.

Shall the clause as amended carry: carried.

The CHAIRMAN: Clause 53—statement to be laid before annual general meeting.

Hon. Mr. ILSLEY: It is proposed that the following subsection shall be added:—

The bank shall within such period after the end of each financial year of the bank as may be prescribed by the minister from time to time, transmit or deliver to the minister for the purposes of the statement referred to in the next succeeding subsection a return of current operating earnings, expenses and other information in the form set forth in schedule Q to this Act.

As soon as may be practicable after the receipt by the minister in each year of the returns required by the next preceding subsection he shall cause to be prepared a statement showing under each heading contained in the form set out in schedule Q to this Act the total arrived at by adding together the amounts shown under such heading in the said returns made by the banks and such statement shall thereupon be published in the *Canada Gazette* and shall be laid before parliament within fifteen days, or if parliament is not then sitting, within fifteen days after the beginning of the next session.

The CHAIRMAN: Shall the amendment carry: carried.

Shall the clause as amended carry: carried.

Clause 88.

Mr. CLEAVER: The Hon. Mr. Hanson has an amendment to that section.

The CHAIRMAN: The Clerk tells me that Mr. Hanson said he would like to withdraw his amendment.

Mr. JACKMAN: He mentioned withdrawing some clause, and this may be it.

Mr. GRAHAM: I understand that he will not be able to be here for some days, will he?

Mr. HAZEN: I understand he will be here on Monday.

Dr. CLARK: It can be reopened.

Hon. Mr. ILSLEY: I think we better take Clause 88 by itself.

The CHAIRMAN: Clause 88:

Mr. CLEAVER: If Mr. Hanson has withdrawn his amendment, there are no amendments before the committee on that clause.

Mr. PERLEY: This is the section which makes provision for the banks to make loans for binder twine, the binder twine being the security; and I just want to record myself as being in favour of that, and many other things in the section. I just want to draw the attention of the committee to the fact that

was substantially the same as the resolution which I put forward by way of an amendment in 1934 and while I did not get it through exactly as I wanted it, it did get through to some extent; and I want to express myself as very much in favour of having this amendment to the clause as it stands.

Clause carried.

The CHAIRMAN: Clause 89.

Hon. Mr. ILSLEY: There is an amendment suggested here; subsection (1) page 50, line 49—delete “the two next following subsections” and substitute “subsections (2) and (3) of this section.” It means exactly the same, it is merely a drafting change.

Mr. PERLEY: This section is the one that empowers the bank, of course, to take security on bills of lading and other documents. The only thing I am a little afraid of is that it might give the banks power to completely tie up a farmer's crop. I just want to make certain that if the crop is delivered to an interior elevator and there is a storage receipt issued—I presume under this Act that would include what might be termed a warehouse receipt, storage receipt. Then there is necessarily a bill of lading when it is shipped out. I have not any amendment to suggest but I want to make sure we are not giving the bank a little too much power. I want to make sure we are not going a little too far because the farmer should have the say when his crop should be sold. Under certain conditions, I think, under this clause, the bank can sell the crop and do what it likes once it has a bill of lading or a warehouse receipt. As I say, I am not prepared to offer a suggestion as to an amendment, but under the amendment proposed here does it still give the farmer the say as to when he can sell that crop?

Mr. MUNDELL: I am not quite sure I understand the inquiry. You are assuming a case where a farmer has given security over grain stored in an elevator and deposited a warehouse receipt.

Mr. PERLEY: Once the warehouse receipt is shipped there is a bill of lading attached. Then it goes to the terminal elevator and there is a warehouse receipt issued there. Can the bank under this section do anything they like with the receipt? Under ordinary conditions, of course—at the present time there is a set price—the price is fluctuating and it may be going up or down. The bank has a warehouse receipt and has all the papers as security. Under this can the bank say, “You sell that crop.” It may be going down a cent or two and they may think that the farmer should sell and pay the loan. In other cases it is going up and they would not sell, but have they not a little too much control over when that crop can be sold under ordinary circumstances? I know we have special conditions now where there is a set price, and the argument I am thinking of does not apply under present circumstances, but you can understand that when you have an open market the banker could impose quite a hardship on the farmer by the sale of that grain whereas if they held it for a week or ten days they could get a little more for it, probably.

Mr. MUNDELL: The position in that regard is not changed. So long as the loan is not in default the bank would merely hold the receipt as security and it has no right to deal with the grain. If the loan goes into default then, of course, they have power to sell. That power to sell is controlled by notice provisions, advertising, and so on. As regards a case before default, and the farmer wishing to sell, I have no doubt he could arrange that. I understand that the normal arrangement is that he would arrange with the bank as to how the proceeds would be paid so that the bank's position in relation to its loan would not be prejudiced but assuming that practical arrangements can be made he controls the time of sale of the grain.

The CHAIRMAN: Shall the section carry?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Then, section 89.

Mr. HAZEN: In section 89 (4), page 52, why is the provision thirty days in (a) (i), forest products, and in (a) (ii) ten days? It seems to me ten days is rather short unless there is some particular reason for it.

Mr. MUNDELL: That provision was simply carried forward from the last Act. I do not know the explanation for the difference between the two of them in the present Act.

Mr. HAZEN: There is another question I should like to ask about sub-section 4 (a) (ii), "Publication of an advertisement of the sale in at least two newspapers published in or nearest to the place where the sale is to be made." There are not two newspapers published in a great many places.

Mr. MACDONALD (*Brantford*): Nearest.

Mr. HAZEN: There does not seem to be any provision there in case there are not two newspapers.

Hon. Mr. ILSLEY: Nearest.

Mr. HAZEN: Some may be very far away and would serve no useful purpose.

Mr. MUNDELL: That again was carried forward.

Mr. HAZEN: Is that the same as the last time?

Mr. MUNDELL: Yes.

The CHAIRMAN: We have two amendments.

Mr. MACDONALD (*Brantford*): One amendment was submitted.

The CHAIRMAN: We have three amendments.

Mr. HAZEN: It does not say how long this advertisement has to appear.

Mr. MUNDELL: That is taken care of by the definition clause, if I remember it correctly.

Mr. TOMPKINS: Section 3.

Mr. HAZEN: What page?

Mr. TOMPKINS: Page 4.

Mr. HAZEN: Section 3 does not seem to apply.

Mr. MUNDELL: No, I am sorry.

Mr. HAZEN: Is there any other place that makes provision for that?

Mr. MUNDELL: I think it means a single publication.

Mr. HAZEN: How long before the sale?

Mr. MUNDELL: There is no period specified. It would have to be published before the sale.

Mr. HAZEN: Say it is only published the day before the sale; that would serve no effective purpose. Should there not be a provision in the Act that notice has to be published a certain number of days prior to the sale if there is not any such provision in any part of the Act?

Mr. MACDONALD (*Brantford*): Under (b) it says:

Every sale of live stock shall be made by public auction not less than five days after publication of an advertisement of the time and place.

Mr. HAZEN: (a) is other than live stock. There is a difference there.

Mr. CLEAVER: I would think seven days would be usual. I would think, Mr. Chairman, that is an error in drafting and seven days or some reasonable period of time should be inserted after the words, "at least two newspapers."

Mr. HAZEN: Make it ten days the same as the letter.

Mr. McILRAITH: You want publication after the notice. If the notice is too far in advance it loses its effect.

Mr. HAZEN: That may be right.

Mr. MUNDELL: Would it be practical to make the same provision in (a) as in (b), that is to say, in the leading part of paragraph (a), "every sale of such property other than live stock"—no, that would not do.

Hon. Mr. ILSLEY: My thought is that the length of notice is provided for by (a) (i). Notice of the time and place must be given by registered letter mailed in the post office postpaid to the last known address of the person by whom such security was given at least ten days prior to the sale in the case of the products of the forest and at least thirty days prior to the sale in the case of other property. That is the main notice. But in addition to that there must be publication of an advertisement of the sale in the paper.

Mr. HAZEN: The purpose of publication is to get the people in to buy and get a decent price for the goods that are put up for sale.

Hon. Mr. ILSLEY: Yes.

Mr. HAZEN: There should be a time fixed.

Mr. MACDONALD (*Brantford*): The only place you could put it would be after the word "publication".

Mr. MUNDELL: That is correct.

Mr. MACDONALD (*Brantford*): Publication at least five days prior to the sale and advertise the sale in at least two newspapers.

Mr. CLEAVER: Should it not be ten days?

Mr. JACKMAN: Mr. Chairman, I think we might wish to call evidence from one of the bankers. I understand that this section has never caused any trouble with the borrowing public in the past, and there is also the difficulty that in many small centres the local paper is only published weekly, which would mean that the notice would be seventeen days if there were a ten-day clause put in.

Mr. HAZEN: If I have given a condition or a bill of sale on my property to the bank and afterwards the bank has to realize on it, I am naturally anxious to see that the bank gets as much as it can for it; and unless there is some proper advertising of the sale, that property may be sold for much less than it would otherwise bring.

Dr. CLARK: That is right.

Mr. HAZEN: It should be advertised properly. It may be all right for the bank, but not all right for the holder of the property.

The CHAIRMAN: Mr. McIlraith, you were rising to speak?

Mr. McILRAITH: I was going to point out that there seems to be some difficulty with respect to the time. With respect to the weekly newspapers, any period longer than three days puts you in the position where you lose the effect of the advertisement; because where you have a weekly newspaper published say on Wednesday, if you have a period longer than three days, for a Saturday sale, which is very often the day in the rural town, they would have to advertise the previous Wednesday, but it is not the best advertising day. If we lengthen the period too much, then the person whose property is being sold is not getting the full amount realized and he is being penalized. We have to be very careful in the length of time.

The CHAIRMAN: Has the banking profession any suggestions to offer? Have you, Mr. Jaffray?

Mr. H. T. JAFFRAY, Vice-President and General Manager Imperial Bank of Canada, called:

The WITNESS: Mr. Chairman, in practice I think there is a great deal in what Mr. McIlraith said. You have got to try to have these sales advertised sufficiently close to the time of the sale that you do not lose the benefit of advertisement, and you do not run it over for too long a period so that the people forget all about it. If you are going to put a time limit on—I think in practice it has been very satisfactory as it is. I have never heard of a case where it was found otherwise or where there was any complaint about it.

By Mr. Hazen:

Q. What is your practice?—A. To advertise in the publication issued nearest to the date of the sale. For instance, they are mostly in country papers and not in the city papers.

Q. There might be some in the city papers.—A. Not very often, not with these securities. If the paper was published on a Tuesday, you would advertise the sale for the Saturday. If it was published on Wednesday, you would still advertise for Saturday. That is the way it has been working in practice.

Mr. CLEAVER: Mr. Chairman, subsection (i), I suggest, is to give the owner of the property notice of the sale. Subsection (ii) is to provide for the necessary advertisement so that the public will attend the sale and the highest possible results will be obtained from it. I would move that after the word "sale" in the first line of paragraph (ii) the following words be inserted, "at least three days prior to said sale."

By the Chairman:

Q. What is your comment on that, Mr. Jaffray?—A. I think that is quite all right.

Mr. CLEAVER: Mr. McIlraith has just drawn my attention to the fact that "at least three days" has some legal meaning, and instead of "at least" we should find some other word.

Mr. TUCKER: "At least two days" would be all right.

Mr. CLEAVER: Very well. My amendment would then read, "at least two days prior to such sale."

The WITNESS: I see no objection to that.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

Hon. Mr. ILSLEY: It is very short notice, but it is carried.

The CHAIRMAN: There are two more amendments. What are the other amendments? Mr. Deputy Minister, will you mention the other amendments?

Dr. CLARK: The next one is to subsection (1), on page 51, line 8. After the words "the said section" insert "eighty-eight". That is purely a drafting amendment.

Mr. CLEAVER: Carried.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

Dr. CLARK: The next one is in subsection (7) on page 53, line 31. Delete "or (h)" and substitute "(h) or (i)".

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the clause as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 90.

Hon. Mr. ILSLEY: No amendment.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: There are no amendments suggested, so I am told.

Mr. MACDONALD (*Brantford*): What is the clause?

The CHAIRMAN: Clause 90.

Some Hon. MEMBERS: Carried.

Mr. GRAHAM: Section 90 was carried, I think.

The CHAIRMAN: It is not on my list. The clerk tells me clause 90 has not been carried. Shall the clause carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: It is carried. Clause 91.

Mr. MACDONALD (*Brantford*): Mr. Chairman, I should also like to make a few remarks in regard to clause 91. The committee will remember that when the minister made his statement in the house on May 2—

The CHAIRMAN: You are speaking of clause 90 or 91, Mr. Macdonald?

Mr. MACDONALD (*Brantford*): This is clause 91.

The CHAIRMAN: Yes.

Mr. MACDONALD (*Brantford*): He said on page 2625 of *Hansard* as follows:—

For these new proposals I would like the benefit of very special consideration by the banking and commerce committee and this house. In my desire to keep maximum charges low I may easily have gone too far and I would like the committee to hear evidence from the banks as to whether it is really possible to do this type of business under the terms which I am here suggesting. Furthermore, while in the interest of simplicity and for the purpose of avoiding an odd or fractional rate of interest, I have expressed the ceiling in terms of a 5 per cent discount, it may be that the committee may prefer to express the ceiling in terms of a maximum rate of interest per month or per year. I shall be prepared to welcome the guidance of the committee in this respect also.

Mr. Chairman, it is in respect to the manner in which the rate is expressed that I should like to make a few suggestions to the committee. It seems to me that the discount rate of 5 per cent is misleading. The discount rate of 5 per cent, according to the minister's statement, is an effective rate of $9\frac{3}{4}$ per cent; and added to that there is a charge for insurance and there is a charge for late payment. I do not think that the small borrowers are, on the whole, good enough mathematicians to just appreciate what the actual cost of their loans is.

Hon. Mr. ILSLEY: There is no charge for late payment.

Mr. MACDONALD (*Brantford*): There is no charge for late payment?

Hon. Mr. ILSLEY: No. Just interest. That is all.

Mr. MACDONALD (*Brantford*): I thought there was an additional penalty. I will withdraw that statement, then. But there is a charge for insurance in addition to the interest?

Hon. Mr. ILSLEY: Yes.

Mr. MACDONALD (*Brantford*): That is, in addition to the $9\frac{3}{4}$ per cent. A little booklet came to me through the mail from the Pollak Foundation, Jaffrey, New Hampshire. It is an American publication, and I notice in it these remarks which I should like to read on page 12:—

In the states which are free of loan sharks, the lenders who are licensed under the Uniform Small Loan Law are required to state an

all-inclusive rate in the simplest way known to schoolboy arithmetic. Clarity is compulsory. Discounting is forbidden. No extra charges are permitted, open or concealed; no fees for brokerage, insurance, investigation, or depreciation of the collector's shoe leather. No penalties for late payments may be collected under any pretext whatever. The total charge must be stated as a per cent per month on the actual unpaid balance.

This, apparently, is the method of rate statement which the post-war planners will prescribe for the instalment sales and finance business.

And now, Mr. Chairman, in connection with the rate that has been suggested, $9\frac{3}{4}$ per cent I have used the very limited amount of arithmetic which I have and by one method I find that the rate is an effective rate of 9.32 per cent; under another method the discount method I come to the conclusion that the rate is 10.16 per cent; and under another method I find that the effective rate is .80 of one per cent; or, if we take into consideration the lender receives interest monthly instead of at the end of the year the effective value rate is 10 per cent; or if you take another method, say when a person borrows \$24 for four months and repays \$5 a month and a 5 per cent discount it would be 39.4 cents and where he is being charged 50 cents minimum it makes an effective rate of 1.02 per cent per month; but if you take \$50 loan for two months and paid at \$25 a month with 5 per cent discount, my understanding is that in that case a bank makes a minimum charge of \$1 and it receives an effective rate of 1.36 per cent; then supposing a man borrows \$100 at 5 per cent discount and he later pays back \$8.33 a month and the second month he gets a windfall and he pays the loan off, the earned income is \$1.45 but the bank under this Act charges \$5; that would be \$2.75 per month, or it would be 33 per cent per annum.

Now, I just mention these figures, Mr. Chairman, to show you how confusing it is to arrive at a definite rate which the discount provides the borrower; and for that reason I feel that for the sake of clarity if the borrower is paying, especially a small borrower, $9\frac{3}{4}$ per cent that he should know what he is paying. Where a bank advertises that the rate is 5 per cent, I think that is misleading; in fact, in a case tried in the United States no so very long ago it was held that in fact such was the case, that to quote a discount rate as an interest rate was held to be misleading. I am satisfied that the banks do not want to mislead and I feel that there should be a definite provision in this Act that the banks must say definitely the per cent per month which the borrower is paying. Also I do not see, Mr. Chairman, that section 91 makes any provision for payment in advance; that is to say that if a man borrows \$100 for a year and he happens to get a windfall so that he can go in and pay it off in advance of the due date, there is no provision whereby the bank has to give him the benefit of that.

Now, Mr. Chairman, a number of years ago this committee spent a great deal of time on the Small Loans Companies' Acts and the committee were unanimous in one thing, and that was that the borrower should know how much his money is costing him. I think we are all unanimous on that. There was considerable difference as to what the rate should be, but we did all feel that the small borrower should know how much he was paying for the money he received. And now, Mr. Chairman, I have an amendment of this section. I have a number of copies which I shall be glad to pass around.

Mr. PERLEY: May I interject, Mr. Chairman, to ask whether the amendment to this section of which I gave notice still stands, and if so, whether this is an amendment to my amendment?

Mr. MACDONALD (Brantford): I am prepared to have that go in as a sub-amendment if that is the procedure. Why I have spoken now at the outset of

the consideration of this section is to give the committee some time, if they feel they should have it, to consider the amendments which I am submitting. If the committee feels this should be in the form of a notice of motion, which I had intended, I would be glad to let it stand in that way as a sub-amendment.

Mr. TUCKER: There is one matter that I should like to bring up now so that it can be considered over the recess. As I understand it the banks are now doing small loan business and they are doing it legally, presumably, or else I presume they would not do it at all. What bothers me is that we are hoping to cut down the rate charged to small borrowers, farmers who may borrow less than \$500 and put a maximum charge of 6 per cent on that loan. But if the banks wanted to charge a man engaged in the dairy business or something like that more than 6 per cent they could then, under subsection 2. Then the result of our proceeding as we are doing now might be to enable farmers all throughout this country to be charged more than the legal maximum which they can be charged to-day. In other words, the most that farmers can be charged to-day is 7 per cent, but if we put this section through the way it is worded now so far as I can see the bank can say to a farmer, "I am going to have you repay this in instalments because you are marketing your cream and I am going to charge you 8 per cent by taking the discount under subsection 2 of 4 per cent." That would enable the banks to charge more than they are charging to-day. I submit if we are going to start legislating on small loan matters it should be altogether apart from section 91 so there will be no doubt that any maximum we put in section 91 cannot be evaded by the banks as it was evaded by the banks for years and years before the penalty clause was put in section 91. The reason I say this, Mr. Chairman, is that although parliament did provide for years and years that the maximum should be 7 per cent, the banks deliberately charged more than 7 per cent because they were able to get away with it. I do not think there is any reason to expect they are going to act any differently if we give them a loophole under section 91 as it appears to me we are doing. That is why I think subsection 2 probably should not be in section 91 at all if we are going to legislate to permit banks to go into the small loan business. It should be in some separate section. I doubt the necessity of subsection 2 because the banks would be engaged in this business.

Hon. Mr. ILSLEY: I do not see that putting it in a different section would meet the situation.

Mr. TUCKER: Then I am against it being in the Act altogether, Mr. Minister, because I do not think we should give the banks any loophole to charge higher than the maximum rates we put in this Act.

Mr. PERLEY: In this subamendment to section 2 of Mr. Macdonald he has not inserted in one of the lines the rate of interest. If he would include that I am in accord with what Mr. Macdonald has said. He has put forward some of the arguments I proposed to place before the committee when speaking to any amendment, and if he would insert that and let us know what he has in mind I think I might be willing to consider his amendment and maybe withdraw mine, but we should know what he has in mind in the fifth or sixth line.

Hon. Mr. ILSLEY: Could I clear up one point, or try to clear it up? Mr. Macdonald has assumed that a borrower who pays off his loan in advance of the due date or dates gets no benefit of such payment. I understand that the Department of Justice has a different opinion on it as to the effect of the section. Would you give any opinion on that Mr. Mundell?

Mr. MUNDELL: On that point, Mr. Minister, the section provides that the bank may in the circumstances indicated charge, take, reserve or exact discount or interest at a rate which does not exceed a certain rate. If a loan is paid off in advance and they do not refund any of the interest or discount then they have exacted a higher rate of discount than that provided by the section.

Mr. MACDONALD (*Brantford*): All I can say to that is when the representative of one of the banks was giving evidence he stated that they made a practice of allowing some consideration, but he did not allow the full rebate. That is my recollection of the practice that is now carried on by the banks. Just how they will interpret this section, I do not know. Mr. Mundell has given his interpretation of this. Whether the banks would follow that or not, I could not say. I probably agree with his interpretation but the banks may have a different one.

The CHAIRMAN: Mr. Cleaver has the floor.

Mr. CLEAVER: Mr. Chairman, in considering this section, it does seem to me that there are two main problems. One is the problem raised by Mr. Tucker. I also, when this section was under discussion by the committee some weeks ago, raised the same point. It does seem to me that there would be nothing at all under the section as it now reads which would prevent a bank, if it wished to at all—and I am not saying that it would—from charging this effective rate of something over 9 per cent; by simply going through the motions of saying to a small borrower, "We want you to repay your loan in instalments," they would come within the actual wording of subsection 2. I think that section should go back for redrafting and should be redrafted in such a way that that could not happen.

Then as to the other point, the point raised by Mr. Macdonald in regard to the prepayment of these loans in advance of the due date, I wish to say this. I cannot bring myself to agree as yet with what the Department of Justice has ruled; because if I read this section correctly, the bank has the power to set up this special deposit account and to insist upon the borrower making monthly payments into the deposit account. We were told very distinctly that, once payments were made into that deposit account, those payments were no longer under the control of the borrower, but that that deposit account was under the control of the bank. Even though the borrower brings that deposit account up to the amount of the loan, there is nothing in the Act which prevents the bank from saying to the borrower, "We will keep your money in this special deposit account until the due date of your loan." I may be wrong in that regard, but I rather think I am right. But I want to go on to say this. I do not see anything much wrong with that. Our new subsection 2, we hope, will bring the banks into this small loan field; and if the banks are able to carry on borrowing under that subsection, they will be performing a service for the small borrowers of this country at a cost of very little more than half of what it is costing the small borrowers now. But I think if we attempt to drive that rate down too low, we will defeat our own purpose, and the banks will simply not be able to make the loans and will not make the loans. In connection with this special type of small loan, we are not permitting any service charge, interviewing charge or anything of that sort; and if I know anything about that type of loan, at least half of the expense of the loan is involved and is incurred when the loan is made, because the time of the bank manager is taken up, and the time of the officials of the bank, in interviewing the applicant, making investigation to find out whether they should or can safely advance the money and all that sort of thing. I think the major part of the cost of making a small loan is actually incurred by the bank at the time the loan is made. I do not see anything wrong in saying to a borrower that whether you prepay your loan or not you have got to pay the cost of the making of that loan. And I do not see anything wrong in saying to the borrower, whether your prepay or not, whether you make any reduction—you see, we go too far in our anxiety to drive down interest rates and we get them down below the cost and then the loans will not be made.

The CHAIRMAN: I understand that you ask that the section stand.

Mr. CLEAVER: Yes, I do. I think it should be redrafted by the department to cover the points raised.

The CHAIRMAN: Is it the pleasure of the committee to allow the section to stand?

Mr. GRAHAM: Just a minute, Mr. Chairman; I would like to ask a question so that it may be considered, in relation to a point raised by Mr. Macdonald. As Mr. Perley pointed out, Mr. Macdonald, you have not put in your amendment the actual rate which you suggest should apply. I take it that you would include in your rate an amount covering insurance.

Mr. MACDONALD (*Brantford*): Yes, the amendment states that it covers the insurance—no other charge other than interest may be made by the bank in respect thereof whether by way of service charge, fee, fine, penalty, commission, insurance premium or otherwise.

Mr. GRAHAM: I take it that the rate will be $9\frac{3}{4}$ per cent plus whatever may be needed for insurance charges.

Mr. MACDONALD (*Brantford*): No, what I did suggest was that the rate should be $9\frac{3}{4}$ per cent, and that would be an actual rate of .80 per cent per month.

Mr. McGEER: May I just make one suggestion before I leave? It is a matter worthy of some consideration. I feel this, in connection with the idea of making the rate of interest on small loans attractive; I think there is a great deal to be considered along the lines mentioned by Mr. Cleaver; but it seems to me that we are providing loans to farmers and we are guaranteeing the banks against a certain percentage of loss on those loans. It is presumed that is done for the poorer farmer, the farmer who borrows \$500 or so. Now, there is one class of people in this country who are unable to pay any interest rate at all, it is the type of borrower whom this amendment is supposed to protect. Now it would seem to me that it would be much more effective if we would assist the banks by guaranteeing against loss on these small loans and probably secure a far less reaction and the same result. If I were looking for an argument to use on the nationalization of banks, I would need only to think of arguments such as have been offered here, saying that you are loaning to the trade, and farmers and others at 6 per cent, and as low as $4\frac{1}{2}$ per cent; and others $\frac{3}{4}$ of 1 per cent; and yet the little man who is faced with a desperate emergency of sickness or something of that kind, he must pay $9\frac{3}{4}$ per cent—I will nationalize your banks and I will give you a square deal. I just offer that suggestion because I think this type of legislation is leading in that direction.

The CHAIRMAN: The clause stands.

There is just one other question; as the minister has suggested the re-opening of clause 118. He has an amendment—I think Mr. Graham moved the amendment. Will you explain it Dr. Clark, please?

Dr. CLARK: This is to subsection (1) line 36, page 67: insert "subsection (9) of section 53 and" after the words "pursuant to" in line 36.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the clause as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: We will adjourn until Monday morning at 11.30.

The Committee adjourned at 6.05 o'clock p.m. to meet again on Monday, July 24, 1944, at 11.30 o'clock a.m.

July 25, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, there are certain sections that have already been passed which we are asked to reopen for minor technical changes. The Deputy Minister will explain the nature of the changes. The first section is 144.

Mr. GRAHAM: Mr. Chairman, before we deal with that, I have been somewhat concerned this morning at having to come out of the House when legislation in which I am very much interested is being dealt with. I am in the hope that every member of this committee will agree with me when I say now that in the comparatively few days that are left of this session most of us should be and would like to be in the House of Commons, and that each of us will do our utmost to complete the work of this committee.

The CHAIRMAN: We would like to be there with this bill, Mr. Graham.

Mr. GRAHAM: Pardon?

The CHAIRMAN: We would like to have this bill with us when we are there.

Mr. GRAHAM: Yes.

Dr. CLARK: On section 144 the amendment is purely a verbal error. The amendment reads:—

That clause 144 of bill 91 be amended by deleting the word "of" in line 26 and substituting therefor the word "to".

It will then read:—

To imprisonment for a term not exceeding two years or to both.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the section as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 149. There is no amendment. Shall the section carry?

Some Hon. MEMBERS: Carried.

Mr. FRASER (*Peterborough*): I thought there was an amendment on that.

The CHAIRMAN: No, I am told not. Section 152.

Dr. CLARK: There is an amendment to section 152. It reads:—

That clause 152 of bill 91 be amended by deleting the words "bill, note" in lines 23 and 29 thereof.

That is just a consequential amendment on changes made elsewhere.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the clause as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 153.

Dr. CLARK:—

That clause 153 of bill 91 be amended by inserting the words "as shown by the records of the bank" between the words "holder" and "at least" in line 42 thereof.

It will read:—

To the last known address of such holder as shown by the records of the bank.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the clause as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 157.

Dr. CLARK:—

That sub-clause 1 of clause 157 of bill 91 be amended by inserting the following immediately after paragraph (a), "(b) sub-section 9 of section 56."

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the clause as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Gentlemen, we have certain schedules. They run from a, b, c, d, down to q. I believe they are concerned with sections that have already been passed.

Dr. CLARK: There are a few amendments to them. They are in the printed sheet.

The CHAIRMAN: Schedule A.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule B, no amendment.

Mr. PERLEY: Is that on 157?

The CHAIRMAN: Page 85.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule C.

Dr. CLARK: No amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule D, no amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule E.

Dr. CLARK: No amendments.

The CHAIRMAN: There are no amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule F.

Dr. CLARK: No amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule G.

Dr. CLARK: No amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule H.

Dr. CLARK: No amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule I.

Dr. CLARK: No amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule J.

Dr. CLARK: No amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule K.

Dr. CLARK: No amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule L; there are three amendments to Schedule L.

Dr. CLARK: There are three amendments to schedule L, and they are all designed, I think, to meet the point made by Mr. McGeer and Mr. Slaght, that there should be a separation between dominion securities on the one hand and provincial securities on the other hand in these reports made by the bank. The amendments are in the printed sheet of amendments. Item 12 on the assets side, delete the words "and provincial". Item 13 on the assets side, delete the words "and provincial". Then, insert the following items immediately after item 13 of assets, "provincial government direct and guaranteed securities maturing within two years, not exceeding market value", and "other provincial government direct and guaranteed securities, not exceeding market value". The effect of these three amendments will be to set up dominion holdings in the two classes, short and long term securities, separately, and have provincial holdings expressed separately as well.

The CHAIRMAN: Shall the amendments carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule M.

Dr. CLARK: No amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule N.

Dr. CLARK: No amendments.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule O.

Dr. CLARK: There are amendments to schedule O. In item 12 of liabilities delete, "in the United Kingdom and foreign countries" and substitute "elsewhere than in Canada". Then, in item 9 of assets delete the words, "and provincial". In item 10 of assets delete the words, "and provincial". Then, insert the following items immediately after item 10 of assets, "provincial government direct and guaranteed securities maturing within two years, not exceeding market value", and "other provincial government direct and guaranteed securities, not exceeding market value".

The CHAIRMAN: Shall the amendments carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Schedule P.

Dr. CLARK: No amendments.

Some Hon. MEMBERS: Carried.

Dr. CLARK: Then there is the new schedule Q back of this printed sheet, the schedule which is combined with the new subsection 9 that has been added to section 53 and is substantially in the form of the table which the Minister of Finance placed on Hansard at page 2620. That will provide for that table being available year by year in the future.

The CHAIRMAN: Shall the schedule carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Gentlemen, I would suggest that we revert to clause 92 which was under discussion when we adjourned on Friday. Before we turn to that and ask Mr. Couture to appear on behalf of the province of Quebec may I just read a telegram I have received.

Chairman of the Committee on Banking,
Ottawa, Ont.

The government of Nova Scotia wishes to register its protest against inclusion in the Bank Act of any provision which affects or may encroach upon property and civil rights and particularly to protest section 92 of bill 91 respecting unclaimed bank deposits. Would urge that this section be deleted at least pending reference to court as to its validity and propriety. As lack of time prevents fuller presentation of Nova Scotia's views we wish to associate this province with representations made by province of Quebec. Please acknowledge.

J. H. MacQuarrie,
Attorney General.

The telegram, needless to say, has been acknowledged. Is it the pleasure of the committee to hear Mr. Papineau-Couture?

Some Hon. MEMBERS: Yes.

Mr. BREITHAUP: I move that he be heard.

The CHAIRMAN: Then I will call upon Mr. Papineau-Couture.

Mr. G. C. PAPINEAU-COUTURE, Counsel for the Attorney General of the province of Quebec, recalled:

The WITNESS: Mr. Chairman, at the close of the session on Friday, the Honourable the Minister of Finance made what to me was a rather enlightening statement. He stated that he was moved to submit this new law, owing to the fear that some of the provinces might try to grab—I think that was the word that was used; and I stand corrected if I am wrong—improperly, for instance, unclaimed deposits at the end of a very few years; and he did mention the case of Manitoba which under its Vacant Property Act could claim these dormant deposits at the end of twelve years. I have no brief for the province of Manitoba. I am representing the province of Quebec. In Quebec, as I explained to you, it is only at the end of thirty years that that can be done, which is in line with the general legal economy of the province. That fear which the Minister of Finance expressed, the fear of possible abuse of exercise by the provinces has been peremptorily answered time and again by the Privy Council. I will just quote three lines from Lord Hobhouse in the case of the Bank of Toronto and Lambe, well known by all of you who are members of the bar in the various provinces.

If they—

That is, their lordships.

—find that on the due construction of the Act—

That was the Bank Act.

—a legislative power falls within section 92, it would be quite wrong of them to deny its existence because by some possibility it may be abused, or may limit the range which otherwise would be open to the dominion parliament.

That doctrine laid down in the Bank of Toronto and Lambe case was reaffirmed quite recently in the Alberta taxation case which came before the Privy Council. If any of the members of the committee wish to pursue that subject further, you will find it treated at length, I think, in Mr. O'Connor's parliamentary report of the senate some years ago. I think it was at pages 129 and 130 of the annex, if any of you would like to pursue the subject further.

I find that section 92, subsection 2,—and that was part of the old clause which now stands provides: "No debt owing by the bank by reason of a deposit shall be extinguished and no action to enforce payment thereof shall be barred by any statute of prescription or limitation." But there are new words at the opening of the section, "Except as provided in this section." That is new law, and the exception is in subsection 3; subsection 3 provides for the disappearance of the debt owing by the bank, and I submit also that the action to enforce payment becomes barred and is replaced by subsection 4, by a purely statutory recourse. So that the law as it now stands preventing any limitation, preventing any defeat of the recourse of the creditor disappears; that safeguard disappears when subsection 3 comes into effect. In the draft of subsection 4 submitted we find a reference to a period of twenty years. From a reading of the text of the subsection as amended by the Minister of Finance or at the suggestion of the Minister of Finance, I am not sure whether that twenty years applies to the paying of interest by the Bank of Canada. It is hardly possible that this should be so because in subsection 3 (a), it is stated that the exception only occurs where, "By reason of a deposit, no interest has been paid out and no other transaction has taken place... during a period of ten years." It is therefore difficult to gather what is the meaning of the period of twenty years in subsection 4. It would at least appear that there is grave danger that that might be interpreted by the courts, in such a manner as to state that at the end of twenty years from the turning over of the debt to the Bank of Canada, then that belongs to the Bank of Canada; that is to say, to His Majesty in the right of the dominion. That is the grave danger that I foresee.

In this section might I just very briefly refer to some remarks of Lord Herschell in the Fisheries' case:—

The fact that such jurisdiction in respect of a particular subject matter is conferred on the dominion legislature, for example, affords no evidence that any proprietary rights with respect to it were transferred to the dominion. There is no presumption that because legislative jurisdiction was vested in the dominion parliament, proprietary rights were transferred to it. The Dominion of Canada was called into existence by the British North America Act, 1867. Whatsoever proprietary rights were at the time of the passing of that Act possessed by the provinces remained vested in them, except such as are by any of its express enactments transferred to the Dominion of Canada.

It is the submission of the province of Quebec that at the time of confederation, banking was transferred to the exclusive jurisdiction of the dominion. But that did not mean and could not mean that the civil and property rights arising out of the ownership of deposits could ever become vested in the crown in the right of the dominion. That is exclusively property and civil rights; and *bona vacantia* royalties, as you all know, in so far as the four original provinces forming confederation are concerned, were vested in the crown in the right of the provinces, and they alone are entitled to define what constitutes *bona vacantia* and when an unclaimed asset is to be escheated.

Lord Herschell went on—and here I answer I think both the Minister of Finance and possibly Mr. Tucker who raised a very interesting question at the last session—as follows:—

The suggestion that the power might be abused so as to amount to a practical confiscation of property does not warrant the imposition by the courts of any limit upon the absolute power of legislation conferred. The supreme legislative power in relation to any subject matter is always capable of abuse, but it is not to be assumed that it will be improperly used; if it is, the only remedy is an appeal to those by whom the legislature is elected.

Might I interject? Where the provinces abuse their legislative powers there is a very real right of disallowance by the dominion government exercised through the Governor General in Council.

Resuming my quotation: “If however the legislature purports to confer upon others proprietary rights where it possesses none itself that in their Lordship’s opinion is not an exercise of the legislative jurisdiction conferred by section 91. If the contrary were held, it would follow that the dominion might practically transfer to itself property which has by the British North America Act been left to the provinces and not vested in it.”

The Attorney General of the province of Quebec submits that that is the situation with which we are faced here to-day, and one which this committee is called upon to decide. Incidentally, on the same point, the supreme court in the reference *re* waters and water powers of 1929, said: “the effect of the decisions seems to be that neither the dominion nor the province can take possession of a source of revenue which has been assigned to the other, and as a source of revenue, appropriate it to itself, nor can the owner transfer it to another.” And whether this comes in the proposed legislation to form a part ad perpetuum of the assets of the Bank of Canada, or can immediately be transferred to the Minister of Finance or some other department of the dominion government I know not; but that seems to be the ultimate objective. And I think, contrasting section 92 with section 119—with section 115 which is redrafted in the present bill and adds force to that argument—there is practically no change between section 115 as it now stands and the proposed new section 119. You will see that at the end of the first subsection “in the event of winding up” and so on—“such moneys and the interest thereon shall, notwithstanding any statute of limitations or other Act relating to prescription, be paid to the minister, to be held by him subject to all rightful claims on behalf of any person other than the bank”; and those words are all important, “subject to all rightful claims on behalf of any person other than the bank”. It is not proposed to change the present section 115, according to the draft section of 119; therefore in the case that section 92 goes through as now drafted we will have this extraordinary situation, that where a bank surrenders its charter or ceases business it immediately transfers to the Minister of Finance all deposits which have not been claimed when the winding up is completed. That will remain forever under section 115—now section 119—in the hands of the Minister of Finance to be held in trust by him subject to all rightful claims on behalf of any person other than the bank; but the deposits in the chartered banks which are a continuing claim will be turned over to the Bank of Canada and apparently at the end of twenty years they will become the property of the dominion. At least there is a danger and a conflict of interpretation on the vital question. And therefore in conclusion in order to prevent such a conflict may I with trepidation say that especially this is not the right time to have any controversy as between federal and provincial rights; that what is really a new law proposed should be dropped for the time being, at least pending the decision of the Privy Council on the question.

I have at the suggestion of the committee, through its chairman, during the week-end, prepared the amendments which the Attorney General of Quebec would like to see adopted. There are three in all, but they are subsidiary. I have had the text of the amendments circulated. In the first one I have omitted—and I would ask you gentlemen to add to the copies I have furnished you, in respect to subsection 2, at the first words “except as provided in this section;” and then, subsection 3, 4 and 5 of section 92 we suggest should be deleted as well as the last two lines of subsection 6 reading: “but this subsection shall not relieve a bank of liability in respect of any debt which is subject to the provisions of subsection 3 of this section.”

Mr. HAZEN: What did you say about subsection 2?

The WITNESS: That the first clause of subsection 2 be deleted, because subsection 3 is the exception provided; and if subsection 3 in our submission remains, then the general rule or principle which has been followed so far, that no debt owed by the bank is ever extinguished and no action to enforce payment is ever proscribed or outlawed—then if subsection 3 remains subsection 2 at a given moment disappears. Immediately a proviso comes into force the general principle disappears and the safeguard of the depositors and the provinces disappears. That is our submission. If the main amendment which the Attorney General suggests carries then it is not necessary to consider the other two.

By Mr. Graham:

Q. I wonder if under your proposed amendments there is subsection 4; or, at least a substitution for subsection 4; how would any payment in respect of any debt be made to the Bank of Canada under section 92. I am puzzled a bit.—A. I am puzzled about a great many things, Mr. Graham.

Q. I know; but you have not got my point, your new subsection 4 assumes that payment will be made over to the Bank of Canada under section 92; where is the provision for the paying over?—A. The provision for paying over is contained in subsection 3.

Q. But you delete that?—A. The last paragraph of subsection 3 at the bottom of the page.

Q. But you are deleting subsection 3?—A. Yes, I am deleting 3; I am deleting that, I am deleting 5—that is my main amendment.

Q. And you substitute a new subsection 4?—A. No, no, Mr. Graham; my amendment suggests a substituted section 4 and the addition of a subsection 8 which comes into play if the main amendment does not carry.

Q. I thought the whole was one; it is an alternative.—A. 2 is subsidiary, (a) and (b). In order that I may resume my seat, I will simply state that if the deletions which are requested by the provinces are not granted in toto then at least subsection 4 be clarified if possible—and it is a very difficult thing to do—at least to the extent that as underlined in the draft submitted to the committee the twenty years be tacked onto the interest so that it can be seen that it is the interest which is to be after twenty and not the right to claim after twenty years; and secondly, in order to leave with the provincial courts the jurisdictions which they have at the present time of enforcing recovery of a deposit, or what stands in lieu of a deposit, in the jurisdiction where it exists to-day. That is to say, in that court having jurisdiction in a district or county where the deposit was originally made.

Mr. MACDONALD (*Brantford*): In your amendment you underline certain words in the subsidiary clause. Are the underlined words the only changes from the section as it appears in the bill?

The WITNESS: Although it has not been carried by the committee there was a clerical correction in the fourth line of my draft "who but for the operation of subsection 3" instead of "who but for the operation of this section." I think that had been noted at the time by the solicitors for the Department of Finance and the Minister of Justice. I have added at the end the word "issued"—"enforced by action against the Bank of Canada issued in the Superior, County, or District Court, having jurisdiction in the county or district where the deposit was originally made"; because it would have to issue there because the branch of the Bank of Canada is there in that province. There is only one for the province; in the province of Quebec it is Montreal, in the province of Ontario it is Toronto; and where an original depositor or his successor in title lives hundreds of miles away from that point it is not fair that they should be compelled to have to travel to Montreal or Toronto or to employ in Montreal or Toronto solicitors. It is also to the detriment of the local bars and also, I submit, to the detriment of the population at large, to the ratepayers at large.

The last amendment is an addition to subsection 8 which the Attorney General suggests instead of that of the Minister of Finance: "Nothing contained in this section shall affect any rights pertaining to His Majesty in the right of any province"; instead of the amendment which was proposed by the Minister of Finance which would simply prevent any possibility of the new law being retroactive and it would cut off, or it purports to do so, any proper exercise of rights by His Majesty in the right of any of the provinces after the coming into force of the new Act. I thank you.

The CHAIRMAN: Thank you, Mr. Couture. Of course, we will have the matter properly before us. It will be necessary to have a motion from some member of the committee. It has been suggested that we have a statement from the law office of the federal government before action is taken.

Mr. GRAHAM: Would it not be wise to have a statement from the Deputy Minister of Finance as to what the government seeks to accomplish in transferring the money from the possession of the chartered banks to the Bank of Canada? Could he give us an indication of what amounts would be involved?

X Hon. Mr. ILSLEY: It has been some time since I went into this question; but is Mr. Graham asking the general purpose of the section?

Mr. GRAHAM: Yes. I have this in mind, that the banks are safe depositors of money on behalf of the depositors. What is the minister to get for the central government—the use of the moneys that lie idle after a certain period of time? What is the purpose?

Hon. Mr. ILSLEY: To begin with the principle that I think we have always tried to preserve as a federal government having to do with the business of banking is this, that the money should always be available to the depositor. Now, the provinces, one by one, I think, are taking the position that they have the right to say that if the deposit is unclaimed for a certain period of years the right to the deposit should be transferred to the provinces; that they have jurisdiction to declare what is vacant property and what are royalties, and that it is a proper exercise of provincial jurisdiction to declare deposits which are unclaimed for a certain period of years to be vacant property.

Now, we do not like to see that happen. It should always be available to the depositor no matter when he claims the deposit. We consider that that is a virtue in the banking system. It is a feature which should not disappear from our banking system. The old section, I think, intended to preserve that principle by stating that no period of limitation, no period of prescription, should run against the depositors. Now, in the event of a deposit which remains in a chartered bank for a very long period of years, or perhaps forever, perhaps

it would never be claimed, there did not seem to be any particular reason why the chartered banks should have the use of that money, the retaining of the money, and it was thought that that might properly be transferred to the Bank of Canada, the Bank of Canada standing ready to pay the depositor at any time, no matter when he might appear. That is the general principle of the section.

Mr. HAZEN: Is the dominion government represented in the case that is coming before the Privy Council now?

Hon. Mr. ILSLEY: Mr. Couture says yes.

The WITNESS: It is represented by the Deputy Minister, Mr. Varcoe, and as Attorney of Record, by Mr. Aime Geoffrion, the banks by the firm of Montgomery, McMichael, Common and Howard.

Dr. CLARK: You asked also about the amounts involved. The total of all balances, certified cheques, drafts, dividends, etc., unclaimed for more than five years as at December 31, 1943, according to the return submitted by the ten chartered banks, was approximately \$3,303,000, in addition to which the two Quebec savings banks reported a total of approximately \$247,000, or a grand total therefore of \$3,550,000. Of this amount about \$927,000 was carried on the books of branches outside of Canada, making the net amount on the books of Canadian branches only \$2,623,000.

Mr. GRAHAM: That is five years?

Dr. CLARK: Five years.

Mr. GRAHAM: You have not the record for ten years?

Dr. CLARK: Information obtained recently from the ten individual chartered banks indicates balances on the books of Canadian branches unclaimed for a period of ten years or more as of December 31st last totalling approximately \$1,541,000, and that certified cheques, drafts, etc., excluding dividends, represented a further total of about \$327,000, or a grand total of \$1,868,000 represented roughly by 102,000 individual items. We have not got the precise figures for the Quebec savings banks for deposits not claimed for more than ten years, but they might be of the order of \$100,000. I think that is all the information I have.

Mr. FRASER (*Northumberland*): That means at the end of ten years there is a total of about one and three-quarter million dollars involved altogether?

Dr. CLARK: The amount that has been outstanding unclaimed for ten years or more is around one and three-quarter million dollars.

Mr. FRASER (*Northumberland*): Have you any figures on the Ontario savings bank?

Dr. CLARK: No. I have not.

By Mr. Graham:

Q. Under the Quebec statute, Mr. Papineau-Couture, providing at the end of thirty years the moneys would be paid to the province, is there a right of the depositor to claim as against the province?—A. It has been so suggested. I am candidly of the opinion that it would be an act of grace on the part of the province.

Q. Is that the same in Manitoba?—A. I will read to you the text seeing that there are so many of you who are quite familiar with legal texts:—

The following are deemed to be vacant property without an owner, belonging to His Majesty in the rights of the province of Quebec, deposits of money and of securities, and all credits in specie or in securities, with the fruits thereof, in credit institutions and all other establishments,

which receive funds or securities or deposits, whenever for thirty years or more such deposits or credits have not been the subject of any operation or claim by the persons entitled thereto.

Several claims may be joined in the same demand for the recovery of such property from one and the same depository.

Mr. MACDONALD (*Brantford*): What is that from?

The WITNESS: That is section 1 of the Vacant Property Act of Quebec of 1939, now forming part of the 1941 revised statutes of Quebec. I can give you the chapter.

By Mr. Graham:

Q. To complete the explanation, prior to the passing of that Act suppose a person living and domiciled in the province of Saskatchewan had a deposit in a branch of a chartered bank in the province of Quebec the Crown in what right of what province would be entitled under the law of vacant property?—A. I do not think the Crown in the right of any province in Quebec could have exercised a claim in Quebec in the absence of proof of the death of the establishment of the legal heirs until there was legislation that would continue ad infinitum in the absence of definite proof there was no owner, in the absence of definite proof, for instance, that there was a vacant estate.

Q. What Crown in what right of what province if that were established?—A. If it were established that there was a vacant estate of a person domiciled, to use your illustration, in Saskatchewan that would be the estate of the Saskatchewan resident. Therefore, the devolution would be in accordance with Saskatchewan law, I take it.

Q. Personal property.—A. It would be personal property. The only right of the province of Quebec under those circumstances, I think, would be to tax on the assets situate within the province.

Q. Does your Quebec Vacant Property Act, from which you have quoted, not disturb that principle?—A. My offhand impression is that it does, and vice versa in Saskatchewan as regards a Quebec depositor or European original depositor.

By Mr. Jean:

Q. It does not in a case where a claim is made in thirty years.—A. In regard to our legislation then it is treated as being property without an owner. You might have the same case arising, for instance, out of real estate which had been owned by an Alberta resident or an Ontario resident in Quebec and practically abandoned. His neighbour squawks. If the man dies before thirty years and a claim is made then, of course, the Quebec squawker is ousted by the estate, but if they go to sleep for a century and then at the end of the century they try to claim that property they are out of luck because the neighbour has acquired ownership of that by prescription of thirty years. That is so in so far as Quebec is concerned. I do not pretend to talk about the law of other provinces. It is hard enough to know with a certain degree of certainty the law of one's own province.

I might possibly give this further information. The suit instituted by the province of Quebec as a test case on the recovery of unclaimed deposits was directed against the Bank of Montreal, and all assets which the Bank of Montreal acquired from other banks, for instance, Molson's Bank not very many years ago, and therefore going back until 1821 or 1822 when the Bank of Montreal, which was the first bank in this country to do so, obtained a charter. It covered deposits, as I say, within the whole province but in the possession of

the Bank of Montreal, and which amounted in November, 1940, to \$15,732.49. Of course, you have got to add the other banks, the Royal Bank, the Bank of Commerce, the Bank of Nova Scotia and so on.

By Mr. Graham:

Q. Mr. Couture, it strikes me that if the Vacant Property Act and its provisions were fully applied that you might, by the provisions of that Act, be invading the rights of another party in the field of property and civil rights by the fact you and I agreed upon.—A. I do not think that aspect of the question has been considered except incidentally in connection with matters arising out of taxation of estates. If I am not mistaken there is a case of Lovett and the King or the King and Lovett arising out of succession duties where a depositor resided in England and where the Privy Council held that that being physically situate in the province of Quebec was properly taxable although it was an intangible asset in the sense it was not a physical asset. That is the best answer I can give you offhand.

Mr. FRASER (*Northumberland*): Mr. Chairman, I have listened very attentively since I came in to the submission by the learned gentleman who has just taken his seat. Of course, to a layman it is pretty hard to follow some of the submissions that he has made. I also listened to the remarks of the Honourable the Minister of Finance in connection with section 92. It seems to me that, boiled down, we are discussing a matter firstly of business and then a matter, as was well set out by the Minister of Finance, of maintaining one of the fundamentals of our banking system in its entirety, inasmuch as the depositors should be protected and their heirs should be protected at least as long as within the range of extreme reason, perhaps.

I do not think the statement made by the learned gentleman that this would be a bad time to put this section 92 through, when it is a question of argument between the federal government and the provinces has anything to do with it. I think it probably would have been much better if the learned gentleman had not interjected that particular remark, because it has no bearing on this matter at all. The committee is charged with the responsibility of discussing this section strictly on its merits, and with a full realization of the rights of depositors who make deposits in our chartered banks. It further seems to me, Mr. Chairman, that we are dealing with a subject that is somewhat like our Navigable Waters Act. We are dealing with deposits of money made by people in the chartered banks for security and trust. As the Deputy Minister said, there is only about one and three-quarter million dollars involved even at the ten-year period. As far as I am concerned, I am going to vote against this amendment and I see no reason why this section 92 should not stand notwithstanding the arguments that have been submitted. Surely, in fluid matter such as this, where those deposits would be on demand through any branch of the chartered banks, the jurisdiction should remain with the federal government through the agency of the Department of Finance and through the Bank of Canada. As section 92 stands, those deposits will come under the jurisdiction of the Bank of Canada and the federal government. I think it is proper not only in the interests of our banking system but also in the interests of these depositors. They are Canadian citizens, and whether they happen to deposit money in Ontario, Saskatchewan or Quebec, it should not have any bearing on the subject whatsoever. They may move from the city of Quebec or St. Hyacinthe to Regina or Toronto, and their rights should be protected by the Bank of Canada as set out in this section whether they reside in one part of Canada or another, or whether their heirs reside in one part of Canada or another. There would seem to be very strong recommendation in the remarks of the Honourable the Minister of Finance as

to the principle of continued availability, continued security and right of liquidation as set out under section 92 of the depositors' funds deposited with the chartered banks and transferred for protection in any part of Canada to the account of the Bank of Canada.

Hon. Mr. ILSLEY: Mr. Chairman, I think it would be well for Mr. Mundell of the Department of Justice to outline the situation again with respect to Mr. Papineau-Couture's remarks. It is a very simple question from my point of view. I think that we should be derelict in our duty as a federal government, if we did not legislate to protect a principle that is a good principle. I am afraid from the discussion that has developed this morning, that if we abandon the depositors, so to speak to the provinces, just by stepping out and saying the amount is small and it does not make very much difference, we are going to eventually have a condition where the provinces are disputing with one another as to who has the right to these unclaimed deposits. I think we should brush that all aside and we should lay down the fundamental principle that those deposits belong to the depositors, whether they claim them in five years, ten years, twenty years or fifty years. It is not a question of fear of abuse by the provinces. We cannot say they are abusing their rights if we abandon a field and they exercise right. But if this is the field of banking legislation, if I understand the constitution properly, we have rights in that field if we exercise them. If we do not exercise them, then possibly the provinces can come in under property and civil rights. But I think it is our duty to consider first the principle whether the depositors should be protected indefinitely, without any limitation of time at all. That is the principle of this section. We will not interfere with any rights the provinces have up to the date of the passing of this Act. We will not legislate retroactively. But for the future I think it is our duty to come into that field and protect these depositors. That is my general approach to the problem, and I understand that the Department of Justice had drafted the section in such a way that that is done and that that is all that is done. There is a subordinate point, I suppose, as to whether the deposits should remain in the hands of the chartered banks or in the Bank of Canada. But I think that it is all to the good not to leave the situation in this position, that we are allowing the chartered banks to have deposits there indefinitely which they are not paying interest on and which may never be claimed. It is giving them an undeserved or unmerited advantage there which the Bank of Canada should have rather than the chartered banks. That is my understanding. I should like to ask Mr. Mundell whether that is the principle upon which that section is drafted or whether there are any qualifications of that principle. I should also like to ask him to reply, if he would, to Mr. Papineau-Couture's argument.

Mr. FRASER (*Northumberland*): If you do not do that, there is going to be a diversification of decisions by the courts in Canada.

Hon. Mr. ILSLEY: I would think so.

Mr. FRASER (*Peterborough*): The minister said there would be deposits with no interest paid on them. Would not interest be paid on those deposits?

Hon. Mr. ILSLEY: Interest is paid for twenty years, where they are interest-bearing deposits.

The CHAIRMAN: Mr. Mundell, will you comply with the minister's request?

Mr. GRAHAM: Mr. Chairman, before Mr. Mundell speaks, I think it would assist him, so far as I am concerned, if I explained my own attitude. I am in complete agreement with the minister that the depositor is the one we should think about, who entrusted the moneys to the bank on the assumption for himself and his heirs that that money would be forthcoming when he or his heirs wanted it. But that being so, I should like my mind to be satisfied that this proposed amendment by the government does not infringe upon the rights

of the province under the law of escheat or bona vacantia. If that is preserved after the moneys come into the hands of the Bank of Canada, I am in complete agreement with the proposed amendment. But I do recognize this. The provinces have rights and we must be careful to safeguard those or we will have a centralization that is dangerous. Mr. Papineau-Couture seems to think that the wording of the proposed amendment of the government endangers that right after the moneys get into the hands of the Bank of Canada. I should like to be certain that that right of the provinces is not disturbed if they can prove a condition under which escheat would arise or show that, in the normal course of events, the moneys would come to the crown in the right of the province—the province that is entitled to them, not necessarily the province that claims them under any vacant Property Act.

Mr. TUCKER: I think the whole principle is at stake if you are going to recognize the right of the province in respect of bona vacantia if you allow the province, in the case of where a depositor has not been dealt with for twenty years, to declare their right to the amount on the basis that it is vacant property. I am afraid in that way that you can destroy the right of the depositor to any claim to the money. I think we should leave the depositor in such a position that should he be able to establish his rights to it, he could claim it at any time and that we should not give to the province, or allow to any province, the right to take over that unclaimed deposit on the grounds of bona vacantia. Unless Mr. Mundell assures me that that right of the depositor continues under this proposed amendment now before us, I shall have to oppose it. I think the depositor's right to the money should be preserved. As I understand the intention of the Quebec legislation it is their intention to take that money over at the expiration of thirty years; and that is what I am concerned about. If we can be assured that the possible right of any future claimant to that deposit will be preserved then I have no serious objection. All I am concerned about is that it will preserve that principle, that the depositor shall get the money deposited if he can prove his right to it. But I go further than that and I say that he ought to have the right to prove his title to the deposit in the district in which the money was put into the bank. I hope that some consideration will be given to that right.

Mr. JEAN: Mr. Chairman, may I suggest that we could probably avoid a lot of discussion if the minister would proceed with the subsidiary amendment submitted by Mr. Couture. We could leave subsections 3, 5 and 6 as they are and then amend this subsection 4 as suggested, and add the clause 8.

Hon. Mr. ILSLEY: But clause 8 accomplishes the same thing as the deletion of the effective sections, as I understand it.

Mr. JEAN: Yes, I know.

Mr. MARIER: That would obviate the possibility of the federal government invading any of the rights of the provinces. As I see it, if the judgment is against the provinces then this subsection 8 will have no effect.

Mr. GRAHAM: I presume your worry, Mr. Minister, is that subsection may give the provinces the right to pass a vacant property act.

Hon. Mr. ILSLEY: That is so.

Mr. GRAHAM: I would not like to see any of the rights of the provinces interfered with by the passing of this clause, nor would I like to see the rights of the depositors affected. I would like to see the provinces reserve their rights in cases of bona fide bona vacantia where they have the evidence to support such claims.

Hon. Mr. ILSLEY: I suggest that we hear Mr. Mundell on this.

Mr. MUNDELL: As I understand it, the points you would like to have the views of our department on are first whether the amendment is constitutional

as coming within the powers of parliament, second what is the effect upon the provincial position and third there would be the question of jurisdiction. If that is a satisfactory way of dealing with it, I will deal with those three points.

Some HON. MEMBERS: Louder, please.

MR. MUNDELL: With regard to the constitutionality of the proposed clause 92, we are satisfied in our department that the clause is constitutional. It relates strictly to banking, the relationship of the bank to the depositor and then to the Bank of Canada; all of which matters are within the jurisdiction of parliament. We are satisfied that it does not invade the field of bona vacantia in an ultra vires manner. As Mr. Tucker pointed out a moment ago, it does override the Quebec legislation which creates what might be termed an artificial class of bona vacantia.

MR. TUCKER: That is right.

MR. MUNDELL: But it does not in our view invade the general field of bona vacantia, for reasons which I will give you in a moment.

MR. GRAHAM: Before proceeding with your next point, would you tell me if the money so transferred to the Bank of Canada, if the province were able to prove the death of the depositor and the fact that there were no legal claimants, would the province have a claim against the Bank of Canada according to ordinary law?

MR. MUNDELL: I am not sure that the province would have that right in all of the provinces at the present time. I am satisfied that a province could enact legislation which would give it that right in its own powers, notwithstanding section 92.

MR. GRAHAM: And that is just the difference between the law of escheat and the law of bona vacantia which means there is nobody there at all.

MR. MUNDELL: I believe that the province of Quebec becomes the ultimate heir; therefore, in the province of Quebec the province could come in under subsection 7 of the clause in the proposed bill which defines creditor as a person entitled to claim in cases where he proves himself to be a creditor; and creditor is defined as, "heir, executor, administrator or personal or other legal representative or assign of the creditor and a corporation and its successor or assign". Therefore, in the province of Quebec in a genuine case of bona vacantia the province could come in and prove itself to be the creditor, the ultimate heir. In the other provinces the law of bona vacantia is somewhat different in that it relates more to real property, and where it is a case of vacant property with no owner it goes to the crown in the right of the province. The provinces could under legislative authority to enact laws relating to succession duties enact a statute that would provide that the crown would be the ultimate heir in a case of this kind; so that if under the present laws it is not entitled to go that far it has its remedy.

MR. FRASER (*Northumberland*): As far as real property is concerned, it concerns itself with ultimate ownership.

MR. MUNDELL: I am sorry, I did not hear you.

MR. PERLEY: Louder, please, we cannot hear you.

MR. MUNDELL: Does that sufficiently explain the view of our department on that point?

MR. TUCKER: Yes.

MR. MUNDELL: That deals with the constitutionality of the amendment from the point of view of the powers of parliament. I now come to the provincial position. If I might deal with Mr. Couture's amendment, his subsidiary amendments; with reference to the first point relating to twenty-year periods, that amendment is quite satisfactory to our department. I think it is an

improvement in the section and would make it much more clear in operation. With reference to second subsidiary amendment; that jurisdiction be given to the court in which the debt originally arose, we are of the opinion that would be ultra vires of parliament and would destroy the effect of the whole section. In that regard I might point out what I understand to be the administrative process in connection with the collection of these unclaimed deposits. It is the intention I believe that the Bank of Canada hold these deposits after ten years; that where the depositor wishes to make a claim he will go to his original bank which has his signature card and his record of account and he will make his claim to that bank. That bank will then forward its recommendation to the Bank of Canada as to whether it will pay the deposit or not. It would then be paid if the bank recommends it to be paid. It would only be in cases where there was a dispute as to whether the depositor was entitled to the deposit or not that litigation would arise. That would be as experience shows a very small percentage of the cases, and the question of jurisdiction there relates only to that very small percentage. We feel that parliament has not the authority to give jurisdiction to a provincial court in a matter of this kind which it has not already got.

Mr. JEAN: Has the dominion jurisdiction under the amendment?

Mr. MUNDELL: My understanding of the amendment is that having jurisdiction is merely a recita.

Hon. Mr. HANSON: May I see a copy of the amendment, please?

Mr. MUNDELL: My interpretation of that would be that the superior, district or county court would have the jurisdiction which it already has. That is to say, in the province of Saskatchewan, the district court of Saskatchewan would have jurisdiction up to \$800 on the matter of whole contracts which arose in the district. In a case of that kind the district court would have jurisdiction; beyond that it goes to the superior court.

Mr. FRASER (*Peterborough*): There is the principle that the bank should have the signature card of the depositor. The Minister of Finance has an amendment here in subsection 6 which says that the books can be destroyed after thirty years.

Mr. MAYBANK: The man would prove his deposit by other material.

Mr. FRASER (*Peterborough*): That is clause 92, subsection 6.

Mr. MUNDELL: The operation of that subsection is this, that where a claim arises against a bank all the evidence in relation to this claim must be evidence relating to matters that have taken place within the last thirty years—that is to say the records of the banks for the last thirty years are still evidence. These unclaimed deposits are current deposits; they are likely to be paid out at any time; they are running currently; and the records would be in the present day records of the bank.

Mr. CLEAVER: The current thirty years of records would always be there.

Mr. FRASER (*Peterborough*): After thirty years would they have to hold them?

Mr. MUNDELL: In the proviso to that amendment—possibly this is not as clearly worded as it should be—it says: "Provided that nothing contained in this subsection shall affect the operation of any statute of prescription or limitation or any right of the bank to destroy any of its books and records as it may see fit or relieve the bank from any liability to the Bank of Canada in respect of any debt which is subject to the provisions of subsection 3 of this section." And subsection 3 covers unclaimed deposits.

Mr. MACDONALD (*Brantford*): I understand that Mr. Mundell is dividing his answer into three parts, and I wonder if we could get the three parts.

MR. MUNDELL: The third point was on the proposed amendment to sub-clause 8: "Nothing contained in this section shall affect any rights pertaining to His Majesty in the right of any province." That is substantially the same wording as the amendment proposed by the minister with the exception that there is no date. As I interpret that clause it would have the effect suggested by Mr. Graham; it destroys the whole principle of section 92. It comes back to the big question of principle: Should 92 be enacted or not?

MR. CLEAVER: Mr. Chairman, I believe I had the floor when the minister suggested that we should hear from the Department of Justice. As I have followed this argument I have understood that the province of Quebec believes the proposed section 92 will constitute an invasion of provincial rights. Now, following the argument through I am sorry that I cannot reach that conclusion. I think the shoe is on the other foot. I think what has been happening is an invasion of federal rights by the province of Quebec. Under the British North America Act, while it is true that property and civil rights were awarded to the provinces, it is equally true that banking was awarded to the federal government, and I feel very strongly that it is the paramount duty of Ottawa to see that the rights of the depositors are fully protected for an unlimited period of time so that any depositor coming along at any time will have the right to and will receive his deposit. Now, as I conceive it; the province of Quebec in suggesting there is invasion of provincial rights is far afield from the actual fact. What has happened is that the province of Quebec has invaded the federal field and has attempted to step into the field of banking, whereas banking was awarded to the federal jurisdiction. While I have not a breakdown of how the different provinces will share with regard to these unclaimed deposits I had anticipated that Ontario would be one of the chief beneficiaries, and I do feel that it is our paramount duty to maintain the rights of depositors.

MR. HAZEN: Is it right to say that the province of Quebec has invaded the federal field when there is a case before the Privy Council?

MR. CLEAVER: I say this, that until the federal government enters that field under its jurisdiction in banking the provincial rights are very wide as to property and civil rights, but when they charge the federal authority with invading their field I think they are away from the facts because banking was awarded to the federal jurisdiction, and undoubtedly the protection of the rights of depositors under the banking system is banking within the meaning of the British North America Act.

HON. MR. ILSLEY: My point is that we should endeavour effectively to enter that field for the protection of the depositor. If we have not effectively entered it already we should now enter that field effectively.

MR. HAZEN: I understand that, but we have a principle in most of our provinces, and if a person does not look after his real estate—if he sees fit to go away and let somebody else settle on his land and does nothing about it the other person has open possession after twenty years in some cases and thirty years in other cases, and then the person who holds the legal title of that land loses it. Is that a fair principle in the case of land? If it is a fair principle—and I think it is—and you have an account inactive for thirty years, as in the province of Quebec, why should it not become the property of the crown and why should it not be the crown in the right of the province? Why should it be the crown in the right of the dominion or the Bank of Canada?

These sections in this Act are very carefully and cleverly worded, but what is the effect? The effect is simply this, that these moneys become the property of the Bank of Canada. That is the real effect after these accounts

have been inactive and inoperative for years; and the effect of that is that although this is worded in a way to get around this it becomes the property of the Bank of Canada.

Hon. Mr. ILSLEY: I do not agree with that.

Mr. HAZEN: That is a matter of fact. Why should not the province have as much right to that money as the Bank of Canada when it become ineffective and non-operative? My own idea is that the bank deposits are property, and that consequently they come under section 92 of the British North America Act, so that it is a matter that the provinces have a right to deal with. As I understand the argument put up by the dominion it is this that these deposits are essentially a matter of banking and that, therefore, this comes under section 91 of the Act. Well, I doubt if that is correct. I may be wrong. We have the decisions of two courts in Quebec that they are private property and we have, I think, the decision of the court of Manitoba that they come under section 92. As I pointed out, the whole matter is before the Privy Council, and I believe we would be well advised to wait until we receive the decision of the Privy Council before we get more or less involved with constitutional matters of this kind.

Mr. MAYBANK: I wanted to ask a question in connection with this based on a series of statements. As I see the situation at the present moment the way it is proposed the Crown does not intend to take something which hitherto the provinces have been taking. Whatever the Crown in the right of the dominion takes it takes with a liability attached, a liability continuing and continuing and continuing.

Mr. MACDONALD (*Brantford*): It is the custodian.

Mr. MAYBANK: That is true. The situation with respect to the province obtaining bona vacantia is that it takes finally, irrevocably. The Crown in the right of the dominion is not, as I understand it, now proposing to step into the shoes of the province in any way whatsoever.

I submit this statement, that Smith dies owning two kinds of property, a bank account and a cow, and Smith has no heirs at all. There is no question about that. The Crown in the right of the province can take the cow under the law of escheat and can likewise take the bank account. Under the situation which would develop with the proposed law enacted there would be no change in that. The Crown in the right of the province would still do, in relation to the Bank Act, precisely what it would have done yesterday. Tomorrow the province's position in that respect will be as it was yesterday. If I am wrong in that I should like to be corrected, but that is the way I have seen it thus far.

While I am touching that I should like to make this comment or suggestion for consideration. I am thinking now of the same man, Smith. He will not have a cow under the circumstances but only a bank account because I am thinking of Smith going away to parts unknown and being gone quite a long time, certainly more than seven years.

Mr. GRAHAM: Perhaps to war.

Mr. MAYBANK: The war will raise many problems such as this. That is why I have ruled out the possibility of Smith having a cow because it will not last as long as he has been away, but we will remember he still had that piece of property, the bank account. Now then, we are familiar with heirs coming forward from time to time to the courts to establish that so and so is dead, that he should be presumed to be dead. If Smith had any heirs they could come forward and do that and get that bank account under presumption of death. I have already said this particular individual had no heirs. I should like to point out that it would be within the province of some officer like the King's proctor—and we do not as a rule in the provinces call them King's

proctors as they do in England, but at any rate, whoever acts in the capacity of solicitor to the King would be able to come forward in any given case and secure as a person interested—the King would be a person interested—a declarator from the court presuming the death of Smith. The property would then become bona vacantia. It already was bona vacantia. Under presumption of death administration takes place and there would be the arrival at the door of the King of this property which I have called a bank account. I think that the provinces, even under this law if they wish to take the necessary legal proceedings, can still get this property into their hands and into their treasury just as they could have done yesterday. That last is a suggested course of action. I should like to know whether there would appear to be any objection to it. Offhand I do not see that there is.

Mr. GRAHAM: Mr. Maybank, Mr. Couture suggests that it does not follow as you suggest.

Mr. MAYBANK: Pardon?

Mr. GRAHAM: Mr. Couture suggests that it does not follow as you suggest after it gets into the hands of the Bank of Canada.

Mr. MAYBANK: That is what I pointed out in the beginning, that this taking of property by the Bank of Canada is radically different in its nature from the taking that we have hitherto had by the King in the right of a province. That is what I meant when I said a little while ago that as far as I can see the position of the province with reference to bona vacantia and escheat will be as it was yesterday.

Mr. GRAHAM: You think it should be?

Mr. MAYBANK: Yes. I do not think we are taking anything away from the province. I do not think by taking over a piece of property, a bank account, and maintaining with respect thereto a liability that that is taking something away from the province which the province has hitherto had. I may be wrong in some of my statements, but I really made those statements with a view to being corrected if I were wrong; because while I spoke with apparent emphasis I do not wish to be so understood. I speak rather with a view to being corrected.

The CHAIRMAN: Mr. Hanson has the floor.

Hon. Mr. HANSON: Shall we continue?

Mr. MARIER: It is 1 o'clock.

Hon. Mr. HANSON: I had some very strong views on this question when the minister delivered his budget speech. In the course of the remarks which I made I referred to that at some length. The minister then intimated, if I recall correctly, that there was an adequate answer to the position I was taking. The answer, if I understand it correctly, is that the federal authorities, being seized with jurisdiction over banking and commerce under section 91 of the Act, seek to enter on the theory that the pith and substance of the subject matter is banking and commerce. I must confess that I cannot bring my mind to agree with that. I deny the very basic premise upon which this legislation is based. The pith and substance of this legislation is not banking at all. It is property and civil rights. By passing this legislation this government can just seize jurisdiction. There is the constitutional aspect. But on examining the section, and having read the cases in Quebec and in Manitoba and having more particularly studied the section, my view is that the objective of the section of the bill is not so much to assert jurisdiction over banking and commerce as to sustain the position of the depositor which may be prejudiced by the action of the provinces if they get possession of this money; they may divert it to a position in which it would be irrecoverable. That is something we must think

about. I must say I am impressed with that practical point of view and the justice of that point of view. I understand that in the province of Alberta vacant property goes to the benefit of the universities.

Mr. CLEAVER: That is right.

Hon. Mr. HANSON: That is a very worthy objective, but what about the rights of the real owner or his heirs? I do not know what the law is in the province of Quebec. I have not read their statutes, but I went to the trouble of getting the reference and reading a case in the court of appeal. I have here the reasons for judgment of the court of appeal and I read the decision of the trial judge. In the province of Quebec, if I appreciate the situation, the money once it get into the hands of the provincial government, would not be held for the benefit of the depositor. It would go to the consolidated revenue fund.

Hon. Mr. ILSLEY: That is right.

Hon. Mr. HANSON: Is that correct?

Hon. Mr. ILSLEY: Yes.

Hon. Mr. HANSON: I am quite sure that in the province of New Brunswick that is where it would go, and the right of the real true owner, his issue or his heirs, or his personal representative is a better term, would be extinguished. I am not willing that that shall happen or that there shall be the remotest possibility that those rights shall be taken away. While I deny the major premise upon which the department bases its right to legislate, I am very sympathetic to the objective sought, which is the preservation of the right of the depositor. My suggestion would be—I offer it for what it is worth—that in view of the matter being in the position which it now stands, this legislation should not be passed at the present time; because it is always open for the government of the day if they feel strongly enough on the point to bring in an amendment to the Act covering the subject matter of section 92, and I wish to urge upon the minister that that course be pursued, unless there is some very substantial argument against it. Certainly the province of Quebec would not be taking this case to the privy council unless they thought they were on very sound ground.

The WITNESS: The appeal is being taken by the dominion.

Hon. Mr. HANSON: Yes, the dominion appeal is on the question of jurisdiction. Let us have the question of jurisdiction settled; or perhaps, and this is merely a suggestion, have the operation of this section suspended until after that decision is brought down; action might be delayed in bringing this section into force until the decision of the privy council is reached. This section could be brought into effect by a proclamation. Is there any objection to that? Is that a reasonable suggestion?

Hon. Mr. ILSLEY: The privy council will only decide whether we have effectively entered the field by our present legislation.

Hon. Mr. HANSON: Yes.

Hon. Mr. ILSLEY: My position is that whether we have or not, we should enter that field effectively, and the Department of Justice says that this amendment proposed by the government does so.

Hon. Mr. HANSON: Because they touch on the custody of the funds only, not the ownership.

Hon. Mr. ILSLEY: They relate only to custody.

Hon. Mr. HANSON: I do not pretend to be a great constitutional authority but I have given the matter some consideration; as I see it, the substantial ground on which it is based is on the point of custody for the benefit of the depositors.

Hon. Mr. ILSLEY: Yes.

Hon. Mr. HANSON: But not on ownership.

Hon. Mr. ILSLEY: No.

Hon. Mr. HANSON: I do not see how you can transfer ownership to the Bank of Canada.

Hon. Mr. ILSLEY: No, we are not trying to.

Hon. Mr. HANSON: I am just offering these suggestions for what they are worth. I must confess to the committee that I am not holding as strongly to the point which I held in the first instance as I did because I realize now that they are not trying to take away ownership, they are only endeavouring to take custody of these funds, as has been said here previously, for the benefit of the proprietors.

Hon. Mr. ILSLEY: I should point out that Mr. Hanson has put his finger on the root of the issue.

Hon. Mr. HANSON: Yes.

Hon. Mr. ILSLEY: Mr. Hanson takes the position that it is all right for any province to create a period of limitation beyond which the depositors should not have the right to claim the money. Now, that is the fundamental principal in this thing. We deny that.

Hon. Mr. HANSON: The statute of limitations goes a little beyond that. I have had something to do with land cases, and before I can be deprived of my land there must be more than vacant possession. Let me tell you this, you have to prove legal, adverse, continuous and so forth possession against the will of the real owner; and it is pretty difficult to bring yourself under all those conditions with the law as it is.

The CHAIRMAN: Shall we adjourn until 4.30 o'clock this afternoon?

Some Hon. MEMBERS: Agreed.

The Committee adjourned at 1.10 o'clock p.m. to meet again at 4.30 o'clock p.m. this day.

AFTERNOON SESSION

The committee resumed at 4.45 p.m.

The CHAIRMAN: Clause 92; is the committee ready for the question?

Mr. JEAN: I think, Mr. Chairman, that no one has moved a motion for the amendments suggested by Mr. Papineau-Couture. I am disposed to move subsection 4 in the amendment proposed by the Hon. Mr. Ilesley should be amended by changing the words in the seventh and eighth lines, "with interest, if interest was payable on such debt, for a period not exceeding twenty years", to "with interest thereon for a period not exceeding twenty years, if the interest was payable on such debt". Then, at the end of the paragraph change the words, "in the superior, county or district court having jurisdiction in respect thereof" to the words, "issued in the superior, county or district court having jurisdiction in the county or district where the deposit was originally made". Then, in clause 8, which has not been mentioned as clause 8 in the amendment of the minister, change that clause to this one, "nothing contained in this section shall affect any rights appertaining to His Majesty in right of any province".

Mr. PICARD: That is adding, not changing.

The CHAIRMAN: Mr. Jean, would you come to the table, please? We are not quite sure we have the amendments.

Mr. CLEAVER: Question.

The CHAIRMAN: I want to be sure we have the amendments properly worded.

Mr. TUCKER: As I understand this proposed amendment, all it does is place the onus of enforcing responsibility or places the power to enforce it in the district where the cause of action would have arisen if the debt had not been transferred to the Bank of Canada. So far as I can see I cannot see anything against the amendment. It does not seem to me to infringe on the suggestion that we are interfering with the jurisdiction of the court in the province. So far as I am concerned I should like to hear why we should not uphold that because I think it is a thoroughly sound principle that a man who deposits money in a remote part of the province in a bank there should not have to go to the capital of the province in order to enforce his rights.

Mr. MAYBANK: May I just interrupt there? Does that amendment not declare that bank accounts of the type being discussed become *bona vacantia* after a certain time? I understood that was the effect of Mr. Papineau-Couture's amendment.

Hon. Mr. ILSLEY: The addition of subsection 8 does that.

Mr. MAYBANK: In looking at one I was considering the whole.

Mr. JEAN: To help my friends make up their minds I should probably make two motions, one on clause 4 and the other on clause 8.

Mr. MAYBANK: Would it not be well to get the whole picture before us in that regard so that a person would not be voting on the one without knowing that something ancillary is coming along?

Mr. JEAN: The first one is only to let people take action in the district where they have made their deposit. That is the only effect of the first amendment.

Mr. GRAHAM: That is the only one you are moving now?

Mr. MAYBANK: The sole purpose of the present amendment is to declare the place in which action will be instituted in case there should be action. Is it quite clear now that we can determine that under our general right of banking legislation law, quite clear that we can handle that as a matter of procedure law?

Hon. Mr. ILSLEY: Mr. Maybank, I think we should consider three amendments. To the first one I have no objection, that is, to insert after the words, "paid to it" the words "together with interest thereon for a period not exceeding twenty years". That perhaps is not stated exactly correctly but that is the amendment.

Mr. PICARD: I should like to know the difference between this wording and the one we already have in the minister's amendment. It looks much like the same thing as far as the twenty years business is concerned. What would the attorney for the Quebec government have to say on that?

Mr. MACDONALD (*Brantford*): I would draw your attention to the fact there is a division in the House.

The CHAIRMAN: We will adjourn until after the division.

Whereupon the committee adjourned to resume after the division in the House.

On resuming at 5.15 p.m.

The CHAIRMAN: Gentlemen, as there has been some confusion over the wording of the amendment, I will ask the minister to read the amendment as he understands it. Mr. Jean, you moved the amendment. Will you please follow and tell us whether the amendment as read is the one you have in mind?

Mr. JEAN: Yes.

Hon. Mr. ILSLEY: In the first place, we start with the draft bill which is printed and which is in the hands of the members. To subsection 4 an amendment is proposed as suggested by myself.

The CHAIRMAN: By the way, it was moved by Mr. Graham.

Hon. Mr. ILSLEY: It was moved by Mr. Graham, yes. That is found in the notices of motion, which I think are in the hands of the members dated, July 21. To that amendment moved by Mr. Graham and suggested by myself, Mr. Jean, I assume, intends to move—

The CHAIRMAN: Has moved.

Hon. Mr. ILSLEY: Yes, has moved two amendments. They are separate. The first is that the word “together” be inserted between the words “it” and “with”.

Hon. Mr. HANSON: In what section?

Hon. Mr. ILSLEY: In line 7 of the printed amendment in the notices of motion of July 21. The amendment is that the word “together” be inserted between “it” and “with”, and that the words “thereon for a period not exceeding twenty years” be inserted between the words “interest” and “if” in the same line; and that the words “for a period not exceeding twenty years” be deleted from the following line.

Mr. MACDONALD (*Brantford*): So that the subsection will then read how?

Hon. Mr. ILSLEY: It will read as follows:—

Upon payment in respect of any debt being made to the Bank of Canada under this section, the Bank of Canada shall, if payment is demanded by the person who but for the operation of subsection 3 of this section would have been entitled as creditor of the bank by which such payment was made, be liable to pay at its branch in the province in which such debt was owing and payable, an amount equal to the amount so paid to it together with interest thereon, for a period not exceeding twenty years, if interest was payable on such debt

and so forth. That is the first amendment that is suggested. I have no objection to that amendment.

Mr. PICARD: Could we know from the counsel for the Attorney General of Quebec what the meaning of that change is or what the purpose of that change in the first amendment is?

Hon. Mr. HANSON: For the benefit of those of us who could not be here, perhaps he will give a brief explanation.

The WITNESS: It is just for the purpose of clarification and so forth. That subsection could be clarified, in our opinion, and the suggested amendment is in order to diminish the risk of ambiguity. What we are afraid of is that the twenty years mentioned in that would mean that at the end of a period of twenty years, the crown in the right of the dominion might try to appropriate to itself the ownership of the deposit. By placing the word “interest” and the “period of twenty years” together, that doubt would vanish. It is clear that it is only during the period of twenty years that the Bank of Canada will allow interest. But I added that I did not see how the question of interest really arises properly under subsection 4, because the proviso, the exception of subsection 3, is only supposed to come into force when the bank, the original depository bank, has not paid interest for a period of over ten years. Then apparently the Minister of Finance foresees possibly the allowing of interest

by the Bank of Canada from the time it takes over the deposit for a period of twenty years from that date. That is the only way I can understand the paragraph.

Hon. Mr. ILSLEY: You mean now, with the amendment that I propose?

The WITNESS: Yes, now.

Mr. MAYBANK: Mr. Jean's motion used the expression, "court having jurisdiction".

The CHAIRMAN: A little louder, please.

Mr. MAYBANK: I was just remarking that Mr. Jean's motion rules out the adjectives modifying the word "court". He says "A court of competent jurisdiction" instead of naming the different courts by name.

An Hon. MEMBER: That is the next amendment.

The CHAIRMAN: Order. Not all at once, please.

Mr. MAYBANK: They say I am a little bit too soon.

Hon. Mr. ILSLEY: Let me deal with Mr. Couture's point. My understanding is that the Bank of Canada is to pay interest for a period of twenty years only. That is right, is it not? They are to pay interest for twenty years after they receive transfer of the deposit?

Mr. MUNDELL: For twenty years after they receive the transfer of the deposit, 30 years' interest in all.

Hon. Mr. ILSLEY: Oh, I see.

Mr. MUNDELL: Thirty years' interest in all.

Hon. Mr. ILSLEY: Thirty years interest in all, if the interest accrued.

Hon. Mr. HANSON: Yes. They should not be asked to pay interest until they received the money.

Hon. Mr. ILSLEY: All right. That makes it clear. Mr. Varcoe in his letter about this says, "I do not share Mr. Couture's doubt with reference to the first doubt, but I can see no objection to the change proposed by him."

Mr. MACDONALD (*Brantford*): Question.

Hon. Mr. ILSLEY: That is the first amendment.

Some Hon. MEMBERS: Carried.

Hon. Mr. ILSLEY: All right. Now the second one is this.

The CHAIRMAN: Is the first amendment carried?

Some Hon. MEMBERS: Carried.

Mr. TUCKER: Are we not going to study the whole amendment and carry it at once?

Mr. MAYBANK: That change can be made without settling on the principle.

The CHAIRMAN: We have three amendments.

Mr. MAYBANK: That change can be made without settling on the principle in dispute at all.

Hon. Mr. ILSLEY: That is right. The second amendment is that the words, "in the superior court or district court having jurisdiction in respect thereof" be deleted.

Mr. MACDONALD (*Brantford*): Where is that?

Hon. Mr. ILSLEY: At the end of the amendment on the notices of motion of July 21.

Mr. BREITHAUP: What is the number of the section?

Mr. EUDES: Section 92.

Hon. Mr. ILSLEY: I will go back. The amendment is that the words "in the superior, county or district court having jurisdiction in respect thereof"—is everyone following that?

Some Hon. MEMBERS: Yes.

Hon. Mr. ILSLEY: That they be deleted and the following substituted therefor: "issued in the superior, county or district court having jurisdiction in the county or district where the deposit was originally made." With regard to that amendment, the Department of Justice by a letter from Mr. Varcoe said this: "With reference to the second point, it will be observed that the last three lines of subsection 4 provide merely that action may be brought against the Bank of Canada in the court having jurisdiction. This I think goes to the limit of parliament's authority to legislate on this matter, as it is, I think, extremely doubtful whether parliament could transfer to a provincial court any matter of this kind, which transfer the provincial court is not authorized to exercise in the legislation constituting it. I do not think therefore that this suggestion can be given effect to."

Hon. Mr. HANSON: That is extremely sound.

Hon. Mr. ILSLEY: Mr. Mundell can explain that if you desire.

Some Hon. MEMBERS: No.

The CHAIRMAN: The question is on the amendment. All in favour will please raise their hands.

Mr. MAYBANK: All in favour of which?

Hon. Mr. HANSON: What are we voting on?

Hon. Mr. ILSLEY: On Mr. Jean's amendment.

The CHAIRMAN: Yes, on Mr. Jean's second amendment.

Hon. Mr. HANSON: That is the question of jurisdiction.

Hon. Mr. ILSLEY: Yes.

Hon. Mr. HANSON: I am against that.

The CHAIRMAN: All in favour please raise their hands.

Mr. MAYBANK: I should like to get it completely clear.

The CHAIRMAN: All right.

Mr. MAYBANK: The words that Mr. Ilsley read from Mr. Varcoe's letter were referring to this motion of Mr. Jean's?

Hon. Mr. ILSLEY: That is right.

The CHAIRMAN: And he says that the notice of motion of Mr. Jean, which after all is about the same as the typewritten copy, he regards as being unsound from the point of view of constitutional law. Is that right?

Hon. Mr. ILSLEY: That is right.

Mr. MAYBANK: And that is the question we are now asked to confirm or deny by vote?

Hon. Mr. ILSLEY: That is correct.

Mr. TUCKER: On that point, may I say that I do not want to quarrel with the Department of Justice, but I think it is quite clear that all we are suggesting here is the situs of action. We are not conferring jurisdiction on any court at all. We are saying where the locus of the action may be lodged. I have no doubt at all, with all due deference to justice, that this amendment is quite *intra vires* because we in parliament can say where the situs of an action arises. We are not conferring jurisdiction on any court whatever.

The CHAIRMAN: Mr. Jean has the floor.

Mr. JEAN: I think I can meet the objection which has been raised by Mr. Varcoe by changing this amendment a little. Instead of saying that the action must be "issued in the superior, county or district court having jurisdiction

in the county or district where the deposit was originally made", I think it would be better or preferable, at the end of the amendment, to say:

against the Bank of Canada issued in a court of competent jurisdiction within the province where the deposit was originally made.

There is no constitutional objection to that.

Hon. Mr. HANSON: That takes care of the question of situs and it cannot give jurisdiction to a court that has not jurisdiction. I think that is all right.

Hon. Mr. ILSLEY: I can accept that.

The CHAIRMAN: Shall the amendment carry?

(Carried)

Hon. Mr. ILSLEY: Now, the third amendment moved by Mr. Jean proposes to substitute the following for the third of the minister's proposed amendments:—

(b) To insert a new subsection after subsection 7 as follows: in lieu of the amendments suggested by the minister (a) nothing contained in this section shall affect any rights pertaining to His Majesty in right of any province.

The amendment suggested was this:—

Nothing contained in this section shall affect any right in respect of any debt owing by a bank mentioned in subsection 3 hereof which His Majesty in right of any province may have exercised or been entitled to exercise at the time of the coming into force of this Act.

Hon. Mr. HANSON: What is the difference?

Hon. Mr. ILSLEY: There is a great difference. My amendment merely removes retroactivity from the legislation; it leaves any province which has already legislated in respect of existing deposits to retain any rights it has in respect of those deposits. Mr. Mundell will correct me if I am wrong but I understand it will mean that if the province of Quebec is successful in the litigation before the Privy Council it would have the power to appropriate the deposits which are thirty years old and unclaimed before the passing of this Act.

Hon. Mr. HANSON: No other province would.

Hon. Mr. ILSLEY: The province of Manitoba would, but the period there is twelve years.

Mr. MAYBANK: It would prevent imitation. That is as far as I go. As I understand that, you say you are just stopping retroactivity.

Hon. Mr. ILSLEY: Yes.

Mr. MAYBANK: The province of Manitoba has done so and so, the province of Quebec has done likewise, the province of Nova Scotia has not.

Hon. Mr. ILSLEY: That is right.

Mr. MAYBANK: And before they get the notion to imitate the others you propose to stop or kill the desire?

Hon. Mr. ILSLEY: Yes, but it goes further than that with respect to the provinces of Manitoba and Quebec; it stops them from continuing except in respect of deposits which in the case of Manitoba are twelve years old and in the case of the province of Quebec are thirty years old before the passing of this Act.

Mr. MAYBANK: Twenty-nine and eleven—it will interfere with them a year from now.

Hon. Mr. ILSLEY: It will.

Mr. MARIER: Suppose that the Privy Council decide that the provinces have jurisdiction at that point, what would be the result if we passed the amendment as proposed? The result will be then that the Privy Council decides it is the right of the provinces to appropriate these deposits after thirty years. What will happen to such a judgment if we have a clause by which they cannot in future appropriate such deposits?

Hon. Mr. ILSLEY: The Privy Council cannot make a decision—a decision as distinguished from a dictum—on any legislation except the legislation in the present Bank Act, and their decision will merely determine the respective rights of the dominion and the provinces in so far as the present legislation is concerned. The Privy Council decision will not affect—will not be a decision on the legislation that is proposed here. Now, it may be that there will be dicta in the decision which will indicate that our new legislation will not stand up, but if it does not stand up then it will not stand up. The Department of Justice gives it as their opinion that it will stand up, that this is a way in which we can effectively enter this field and protect the rights of depositors; and my submission is that it is our duty to do so.

Mr. MARIER: I have not read the proceedings before the Privy Council, but if the question of the right of the province is discussed before the Privy Council—that is to say that they are discussing in the right of the province, the fact that these deposits are in the civil rights of the provinces, then the decision of the Privy Council can be of such an extent that it will decide that these deposits were made in the province and are in the civil rights or property of the province. If they go so far, I do not know what to think as I have not seen the proceedings. It would not be a dictum, it would be a judgment; and what would happen to your amendment? Then the province would still have the right to go on with their proceedings or with their law, if the law is maintained by the Privy Council to such an extent that the Privy Council decides it is in the right of the province. It may be that Mr. Couture can give us some information on that point; but if it is going as far as that then what will happen to your amendment?

The WITNESS: May I put this question to the Minister of Finance? If I have understood him properly his objective according to the amendment printed in the notice is this: Admitting that the Privy Council confirms the judgments which are now subject to its decision, the object of that will be to declare the provincial legislation on vacant property in Quebec—the Quebec Statute—*intra vires*. Notwithstanding the decision of the Privy Council to that effect that will mean that as and from the enactment of the new legislation now proposed the legislation of Quebec will be ruled out for the future, and that is the thing of which we are afraid. We do not want to have any litigation with the dominion over that. We submit that to you gentlemen who will decide finally whether that decision of the Privy Council shall be nullified in its effect for the future by the amendment suggested by the minister.

Mr. GRAHAM: It would not be ruled out if your contention is right; if the legislation deals with property and civil rights you will have a remedy if we are going beyond our jurisdiction. So in the last analysis it is a matter for determination by our courts as to whether this is dealing with banking or a matter affecting property or civil rights—I do not think it is—I think it is a straight banking matter for the preservation of the rights of depositors.

Hon. Mr. ILSLEY: My understanding, although I have not read the record, is that if the Privy Council found that the present Quebec legislation is legislation dealing with property and civil rights it would probably be because it is not in conflict with effective banking legislations, and if we have effective banking legislation on the statute books, which I contend ought to be put on there—

MR. MAYBANK: Just on that point. The provincial legislature can legislate to call something *bona vacantia* at any time; it certainly can with reference to some kinds of property. It can certainly legislate to call something which I presently own *bona vacantia* if it desires, but probably not go to the fullest extent with regard to banking because if they could declare bank accounts *bona vacantia* whenever they desired, say after twelve years, they could do the same thing after one year which would be destructive of banks and banking. You might consider as long as provincial legislation does not impair banking practice it would be *intra vires* of the province; for example, one would not think thirty years would impair banking practice if that was the period named. Is that the point that is going to be settled by the privy council decision at the moment, and if it so settled in favour of the provinces then are we not at this moment just trying to cut into provincial legislation? That is the thing we have to settle. I gather that particular point has been dealt with specifically and directly by the Department of Justice. I heard it said this morning that we, the Department of Justice, are satisfied as to the constitutionality, but they have doubtless addressed their attention to that precise point. Is that right?

Hon. Mr. ILSLEY: Perhaps I am not going to address my reply specifically to this question. I am awfully sorry I am discussing these legal and constitutional questions without any preparation whatsoever. Mr. Papineau-Couture knows infinitely more about this and so does the Department of Justice, but we have on the statute books at the present time a Bank Act. Section 92 of that Act is a very short section, and subsection 2 reads as follows:—

The liability of the bank, under any law, custom or agreement to repay moneys heretofore or hereafter deposited with it and interest, if any, shall continue, notwithstanding any statute of limitations, or any enactment or law relating to prescription.

I think it is clear what the intention of parliament was when it passed that. They wanted to wipe out any limitations, any prescriptions, as affecting the rights of depositors, but on the wording—and I think this was one of the points in the case—it does not say that the liability to the depositor shall continue. It says:—

The liability of the bank, under any law, custom or agreement shall continue.

Is that a liability to the province which has put itself by property and civil rights legislation in the place of the depositor or is it an obligation to the depositor?

Hon. Mr. HANSON: It is both

Hon. Mr. ILSLEY: I suppose it is but, in other words, we have not effectively in the exercise of our banking legislation powers protected the depositor, but if we do effectively protect the depositor, as is proposed in this legislation. I should think the outcome of a case based on our new legislation would be entirely different.

MR. MAYBANK: Of course, Mr. Ilsley, I was just going to say that while we talk about protection of the depositor the real idea in taking this money over is that we are not thinking particularly of the depositor. Is that not right? We do, I know, continue to carry the liability, and so forth, but I think ministers of finance will budget upon the basis of having and never going to be called upon to account for these moneys. Is that not right?

Hon. Mr. ILSLEY: Not by any means; the whole and sole purpose is to protect the depositor.

MR. MAYBANK: I am glad to hear that.

Hon. Mr. HANSON: It is a rather confused position. When I first read this proposal in section 92, when I heard the minister's statement, made my speech and read the section, I had the idea that the title, if that is the right term to use, was being taken over under federal legislation and vested in the Bank of Canada. That is not quite correct. The custody of the fund is being taken over by this legislation and vested in the Bank of Canada as administrator for the sole purpose of protecting the depositor. The consolidated revenue fund in this country is never to get any part of it. It remains vested in the central bank forever. As against that you have the position of the provinces which at the present time, based on the present legislation, has been declared by one of the superior courts in this country on appeal to be vested in the provinces. That is going on appeal to the privy council. I think the minister has very correctly pointed out that notwithstanding what the decision of the privy council may be if you accept this new legislation with the proposed amendment it will wipe out the effect of any judgment that may be given by the privy council.

Mr. MARIER: Not necessarily.

Hon. Mr. HANSON: That is the hope of the Department of Justice. I see that counsel here from that department tells me by his nod that is the aim at all events. I am afraid that will be the result. I do not want to see injustice done to anyone. I do think that the rights of the depositors are paramount, that the rights of the province of Quebec, the province of Manitoba, which has legislated, and even the rights of the common law provinces which have not legislated, are secondary to that of the depositor. I have come to the conclusion that the paramount right is the one that should be protected, and the effect of the proposed amendment will attain that end. Therefore, reluctantly, if this thing is pressed to a conclusion without any limitations as to its coming into effect, I think I will have to support the minister's position, but I do suggest that because there is a confusion, which I am not going over again, that if we do pass the proposed amendment suggested by the department that it be held in abeyance until we see what the privy council does. Then it leaves the province of Quebec free to attack this other if they want to. Counsel says that they want to avoid litigation but he forgets the objective of the proposed legislation which is of paramount importance, the preservation of the rights of the depositor. I think the department will be well advised to go slowly in the matter. Is there any pressing need for immediate action? The position will remain in status quo as a result of the litigation instituted by the province of Quebec. No harm can be done to anybody if the provisions of the statute are suspended until it is clarified.

Mr. MAYBANK: What virtue in occupying the field?

Hon. Mr. HANSON: I can see some virtue. I did not see it at first. You have asked me a fair question and I will try to answer it to the best of my ability. The federal government takes the view, if I understand the minister's contention correctly, that their paramount duty is to preserve the position of the depositor regardless, that if they do not take some action, having regard to the provisions of section 92 as presently in the Bank Act where only the banks are prohibited from pleading the statute of limitations and there is no protection in express affirmative terms for the depositor, they are not doing their full duty. On the other hand, there is the position of the province of Quebec which says that if this property is vacant for thirty years under our statute, it being property and civil rights, we are entitled to it. I do not know if that is a complete answer or not but that is the trend of my reasoning. I must confess the paramount consideration wipes out every other consideration with me, and yet I should like to see this whole thing stand over until we find out what the courts say.

Hon. Mr. ILSLEY: It would appear to me if we do not pass this legislation now that it would be an invitation to other provinces to step in at once and put

themselves in the same position as Quebec and Manitoba have already put themselves in. Then, if we undertook to deal with it at the next session of parliament or the next session after that by amendment to the Bank Act, which we could do, we would be bound, I think, to avoid retroactivity in those cases which would mean that the provinces would appropriate, if the province of Quebec is correct in its contention and succeeds in its case to the Privy Council, all deposits in those provinces which had been unclaimed for a period of thirty years, twelve years, six years, eight years, any time, any period.

Hon. Mr. HANSON: Then the answer to that is just this, in my view. Pass the legislation, but do not bring it into effect until proclaimed by the Governor in Council. You can put it into effect any day.

Mr. MAYBANK: Then you would have to be on your toes in case they started doing it in some provinces.

Hon. Mr. HANSON: They would know.

The CHAIRMAN: Are you ready for the question?

Mr. EDWARDS: I should like to ask one question that has been bothering me. In the practical results of this legislation, as judged by past experience, after thirty years have there been any claims. My understanding is that these moneys belong to the federal treasury from the bank. Have there been claims from individuals to the banks to pay out moneys that have been paid over to the federal treasury?

Hon. Mr. ILSLEY: Well, the claims do not come against the government.

Hon. Mr. HANSON: No.

Mr. EDWARDS: Well, through the banks.

Hon. Mr. ILSLEY: No. Heretofore the chartered banks have held the deposits.

Mr. EDWARDS: They have never been claimed?

Mr. MACDONALD (*Brantford*): And the liability is never extinguished.

Mr. JEAN: I know of many cases where individuals or supposed heirs were coming after long periods to claim these banks deposits, after thirty years.

Hon. Mr. ILSLEY: Yes.

Mr. JEAN: We had a man in Montreal who was looking after those deposits some years ago.

Mr. EDWARDS: The point in my mind is this. I have entertained the same idea that has been given expression to, that really the provincial treasuries are concerned to get all this money that belongs to no one, where there are no heirs to claim it, that is *bona vacantia*. They say after thirty years this property which has been unclaimed should properly go to the province in the right of the province or of the crown. I agree with that. I think that that money, if it ultimately becomes *bona vacantia* in any jurisdiction, should of right go to the province; and I do not think it should go to the federal bank or should be kept by the federal bank.

Hon. Mr. ILSLEY: I agree, if it is true *bona vacantia*. But if there are heirs, I do not agree. Do not let us get confused about this thirty-year period, because thirty years just happens to be the case in Quebec, which is a cautious and responsible province. It might be five years to-morrow.

Mr. EDWARDS: Can you not answer the question then by definitely saying in your legislation that funds that have been unclaimed for a certain period of time shall be deemed to be *bona vacantia*, and in such event the national bank or the Bank of Canada shall pay the money to the province in which it originates?

Hon. Mr. HANSON: That becomes subject to a serious objection.

Hon. Mr. ILSLEY: I do not think we have the right to pass legislation like that.

Mr. EDWARDS: Then do I understand this—

Hon. Mr. HANSON: You could not do that, because it is property and civil rights.

Mr. EDWARDS: The effect of this legislation would be this, then: there will be funds that will go to the the Bank of Canada that will never become the property of anybody.

Hon. Mr. ILSLEY: I think there will be some, undoubtedly. At the present time and always in the past the intention of this parliament has been that there would be funds in the hands of the chartered banks that would remain there and not become the property of anybody.

Hon. Mr. HANSON: That is the effect.

Some Hon. MEMBERS: Question.

The CHAIRMAN: The question is on the amendment. All in favour please signify.

Hon. Mr. HANSON: Just what are we voting on?

The CHAIRMAN: Are you ready for the question?

Hon. Mr. HANSON: Could we have it stated?

The CHAIRMAN: We will have Mr. Jean's amendment read. Will the clerk read it, please? This, I understand, is the amendment to the amendment moved by Mr. Graham at the suggestion of the Minister of Finance. The clerk will read the amendment.

Hon. Mr. ILSLEY: All right.

The clerk read the amendment as follows: "That a new subsection be inserted after subsection 7 as follows: Nothing contained in this section shall affect any rights appertaining to His Majesty in right of any province."

The CHAIRMAN: All in favour of the amendment will please raise their hands.

Hon. Mr. HANSON: That is Mr. Jean's amendment?

The CHAIRMAN: That is Mr. Jean's amendment.

Hon. Mr. HANSON: There is an amendment to that, is there not?

Hon. Mr. ILSLEY: No.

The CHAIRMAN: All opposed raise their hands. I declare the amendment is lost. Now the question is on the amendment moved by Mr. Graham at the suggestion of the Honourable the Minister.

Mr. CLEAVER: The amendment to the amendment is lost?

The CHAIRMAN: The amendment to the amendment is lost. Now we have the amendment.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Mr. Graham moved the amendment. Will you please read the amendment as it stands?

Some Hon. MEMBERS: Carried.

An Hon. MEMBER: Read it.

Mr. CLEAVER: Carried on division.

The clerk read amendment as follows: "Moved by Mr. Graham that a new subsection be inserted immediately after subsection 7 as follows: Nothing contained in this section shall affect any right in respect of any debt owing by a bank mentioned in subsection 3 hereof which His Majesty in right of any province may have exercised or been entitled to exercise at the time of the coming into force of this Act."

The CHAIRMAN: All in favour raise their hands?

Some Hon. MEMBERS: Carried.

Mr. CLEAVER: Carried on division.

The CHAIRMAN: Carried on division.

Mr. GRAHAM: Mr. Chairman, I should like to know from either you or the persons at the chairman's table or from the bankers if there is any provision in the Bank Act—again remembering the rights of the depositors—requiring any notice to be sent to a depositor at the expiration of a given time, three or five years?

Hon. Mr. HANSON: They do send notice.

Mr. FRASER (*Northumberland, Ont.*): That is provided for now.

Hon. Mr. HANSON: They send out notice. They are asked to verify their current accounts.

Mr. GRAHAM: I know that. But is that a statutory requirement or just the practice?

Mr. MUNDELL: Section 117, page 67, subsection 5.

Hon. Mr. ILSLEY: Read it.

Mr. MUNDELL: Very well. It reads:—

The bank shall transmit by ordinary post to the person to whom any such dividend, amount or balance is payable, and to the person, in so far as known to the bank, to whom any such cheque, draft or bill was issued, or at whose request any such cheque was certified, to the last known address of each such person as shown by the books of the bank, a notice in writing stating that such dividend remains unpaid, or that in respect of such amount or balance no interest has been paid out and no other transaction has taken place and no statement of account has been requested or acknowledged by the creditor, or that such cheque, draft or bill remains unpaid as the case may be.

(6) The notice required by the next preceding subsection shall be given twice, namely, during the month of January next after the end of the first two-year period and also during the month of January next after the end of the first five-year period in respect of which.....

and so on.

Mr. GRAHAM: That is fine.

The CHAIRMAN: Gentlemen, as I understand it, we have the amendment before us. We have had two amendments to the amendment. Shall the amendment as amended be carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Carried. Now we have another amendment.

Hon. Mr. HANSON: To this section?

The CHAIRMAN: Yes. Section 6. Will you please read it, Mr. Clerk?

The clerk reads:

Moved by Mr. Graham that subsection 6 be deleted and the following substituted therefor: "(6) The bank may from time to time destroy its books and records containing entries made more than thirty years prior to such destruction and in any action, suit or proceeding in respect of any debt owing or alleged to be owing by the bank its liability shall be determined by reference only to evidence of matters or things which have arisen or occurred, including entries made in books or records, during the period of thirty years immediately preceding the commencement of such action, suit or proceeding: Provided that nothing contained in this subsection shall affect the right of the bank to destroy any of its books and records

as it may see fit or relieve the bank from any liability to the Bank of Canada in respect of any debt which is subject to the provisions of subsection 3 of this section."

The CHAIRMAN: Shall the amendment carry?

(Carried)

Shall the clause carry as amended?

(Carried)

We are now on clause 91.

HON. MR. ILSLEY: Mr. Chairman, may I make a statement about clause 91. This is the small loans section. Various objections have been raised to this section, and I think the lines of objection to it are two: one is that it is not possible to define this small loan business in such a way that a bank could not, if it so desired, direct applicants for the ordinary type of loan to the small loans department where they will be obliged to pay a higher rate of interest. That objection has been raised by several members. Now, I do not think myself that it is possible to define loans in such a way that there would not be applicants that would be on the borderline and who might be sent either to the small loans department or not, depending upon the view the bank manager took. Then, the banks, I am sure, would say to that: first, that if they proceed under the small loans section they cannot take security; secondly, that it is not a paying type of business, that the other business pays better, and thirdly, that they would act responsibly anyway, that they probably would lean over backward in that regard. That is, I assume, what the banks would say. However, that objection I must admit has some validity—that a bank might, if it wished, treat a customer as a proper applicant for a small loan when they might very well have loaned him the money at 5 per cent or 6 per cent as the case might be.

MR. McCANN: The applicant is at the mercy of the bank manager.

HON. MR. ILSLEY: In some cases. Now, the other objection that has been raised in the section is this, that the passing of the section would be misconstrued; it would be misrepresented as being action by parliament, action by this committee to raise the legal maximum from 7 per cent, as it is in the present Act, to $9\frac{3}{4}$ per cent. Now, I am not insisting on this section—I have not any right to insist, of course, and I am not attempting to insist on this section—but I want to be put before the committee the arguments for the section. These are that the section will supply or result in the establishment of facilities for the unfortunate persons who now find that their only source of funds from borrowing are the small loan companies where the rate of interest is very much greater than the rate of interest provided by this section; and I think that the passing of this section would do good. On the other hand, there are those objections to the section, and I would like to leave the question as to whether this section be proceeded with to the committee itself.

MR. TUCKER: I understood that one of our banks, actually does a small loan business in spite of the fact that there is no section like this in the present Bank Act. I think, perhaps, the committee should know on what basis they feel that they have a right to do the business, and perhaps we might find we would not have to pass the subsection.

The CHAIRMAN: In your absence, Mr. Tucker, we had a lot of evidence—very exhaustive evidence on the subject.

HON. MR. HANSON: I am going to say this: for what it is worth, I think it is worth trying. It is not perfect by any means. It is well known that under small loans section as outlined by Mr. Stewart of the Bank of Commerce

the amount of interest charge actually collected from the borrower in this class is in excess of what ordinarily we understand should be the maximum charge by the bank, and yet a case has been made out for the small borrower who cannot get funds in any other way. It may relieve him from going to the loan sharks; it may relieve him from going to other facilities which compete for this class of business at very much higher rates than are contemplated or allowable under this section. I am going to support the proposal for what it is worth.

The CHAIRMAN: I believe Mr. Macdonald had an amendment and Mr. Perley had an amendment before that. Mr. Macdonald, do I understand you are moving an amendment to Mr. Perley's amendment, or are the two amendments separate?

MR. MACDONALD (*Brantford*): My amendment was a subsequent amendment; Mr. Perley moved his amendment first. My amendment would have to be an amendment to the amendment.

MR. PERLEY: Mr. Chairman, I would like to say this that Mr. Macdonald in moving his amendment in the twelfth line sets out a rate not exceeding so and so, and he has not put it in. Maybe if he would put in that rate I might agree to it. My idea is to make this so that there will not be discrimination between the borrower of \$600 and the borrower of \$550 and the borrower of \$300. Now, I want to have a rate put in there so that even with the discount and the paying of money the borrower, under the Act, will not pay an exorbitant rate. I do not see why a man borrowing \$550 should get the money for 6 per cent, and a man borrowing \$450 should have to pay the equal of $9\frac{3}{4}$ per cent. If Mr. Macdonald will insert in there at the twelfth line a rate of $\frac{1}{2}$ of 1 per cent, or whatever he chooses, per month it might be agreeable to me. I would like to see it not more than $\frac{1}{2}$ of 1 per cent per month when the man had paid in full.

While I am on my feet I agree with what the minister says. This section 2 is somewhat confusing. I would like to have seen it withdrawn altogether and in section 1 insert a certain rate of interest or discount that might be accepted. I have an amendment to section 91 which asks that the rate be reduced from 6 per cent to 5 per cent. Now, I might be willing to make a compromise, and I would suggest cutting out this second section altogether and putting them all under subsection 1. As I say, if Mr. Macdonald will put in the rate there it might be acceptable to me.

MR. MACDONALD (*Brantford*): Mr. Chairman, if the section is to be withdrawn I have no objection. I see the great difficulty of deciding just what is going to be a small loan and what is going to be a loan in the regular course of business. As Mr. Tucker said when he raised the question the other day, a man goes into a bank and he wants \$500. Is the banker going to say, "Well, we will put you in the small loan section", and therefore really charge him a rate of $9\frac{3}{4}$ per cent per annum or is the banker going to say, "Oh, we will leave you in the 6 per cent class"? I do not see how we can differentiate and, as I said, I would be quite agreeable to having the section withdrawn altogether. The only reason I moved the amendment was because the section was in the Act, and if the committee thinks it is in the best interests of all concerned that some people should not pay $9\frac{3}{4}$ per cent while others are paying 6 per cent I am certainly in accord with that but on the other hand if the committee says that some people are to pay $9\frac{3}{4}$ per cent and some 6 per cent then I think the man who is paying $9\frac{3}{4}$ per cent should know that. I do not think the banks should say, "Here, we are giving you a discount of 5 per cent", and the man goes away thinking that he is getting a discount of 5 per cent and thinking that he is only pay 5 per cent whereas he is paying $9\frac{3}{4}$ per cent. As I pointed out the other day there are different ways of figuring

this out. In one case you find he pays $9\frac{3}{4}$ per cent; in another case it might be over 10 per cent; in another case it might be over 12 per cent, and in another case it might be over 13 per cent. In another case where a man pays back at the end of two months instead of keeping the loan for a year the rate goes up to about 33 per cent per annum. Therefore, I think it should be definitely set out in the Act if we are going to have the section just what rate a man is paying. The evidence given by Mr. Stewart of the Bank of Commerce was that they could not do business at a rate of less than $9\frac{3}{4}$ per cent. Therefore, I think a man should know he is paying $9\frac{3}{4}$ per cent. If that is the lowest rate on which they can do business then I would insert in that blank, "A rate not exceeding $\frac{4}{5}$ of 1 per cent per month". That equals $9\frac{3}{4}$ per cent per annum.

The CHAIRMAN: Gentlemen, the minister has made a suggestion that if the committee is in favour of withdrawing the section he will withdraw it. I suggest we just take an informal vote as to how many would like to have the section withdrawn. Please raise your hands.

Mr. McCANN: I do not think that the section should be withdrawn.

Hon. Mr. HANSON: Neither do I.

Mr. McCANN: There is, especially in small communities, a need for some institution which will make small loans to people with very little security. What happens in a small town adjacent to a city? These people cannot obtain the service which they want in their own community and they go to a larger community and get that service and pay very, very dearly for it. One of the reasons they have to pay such exorbitant rates is that those people are not known to the people in the larger community. The man in a town of 6,000 or 7,000, where there is no small loan company, is well known to the banker. His status is known. He may want a small loan. He has not the facilities for getting that loan when he has not the security but by virtue of the fact that he is known to that banker he can get a loan under the present proposed legislation, one which he sorely needs and which he will not be paying in two months. I think the banker in a community should be the judge and that service should be extended to people in smaller communities. Section 91 will do that.

Mr. TUCKER: Mr. Chairman, there is a saying that hard cases make bad law. Where you have one case that might be benefited by giving a man the right to borrow money at $9\frac{3}{4}$ per cent you are going to open up the possibility that hundreds and hundreds of farmers will be charged more than the legal rate which we intend to be charged against them. If we are going to put a subsection here that you can charge an effective rate of almost 10 per cent on loans under \$500 as long as you make them repayable on a monthly basis there is no use putting a top limit on loans of under \$500 in subsection 1. I think that is very clear. My idea is that you will do far more harm by trying to provide credit at $9\frac{3}{4}$ per cent if you ever put through subsection 2. You will do far more harm by doing that because you will make subsection 1 ineffective in far more cases and do far more harm. Now, Mr. Chairman, I understand that many of the banks as a public service do make small loans at under the legal rate. One bank, I understand, has actually made in the last year over 60,000 loans at or under the legal rates. If one bank can do that, then other banks can do it. If an amendment which I intend to make carries, that the banks shall be made to account to at least each parliament for their stewardship, then the extent to which they meet the needs of the small borrower will be taken into account when the question comes up as to whether their charters shall be renewed or not. I do not think we should have to be in the position where we have got to perhaps have our farmers charged up to almost 10 per cent in order to get the banks, out of the generosity

of their hearts, to lend the small borrowers in the towns and cities. I do submit this, that before we in any way shall amend this law so that the banks can charge our farmers on loans under \$500 as high as almost 10 per cent, in order to allow or on the alleged basis that it is necessary to let small borrowers in small towns and cities get loans of under \$500, then I submit that we should think very carefully before we do that. My submission, Mr. Chairman, is that if we do that, then we practically might just as well repeal subsection 1. I understand some of the banks actually do charge more than 7 per cent on this small loan business. If they can do that now under the Act as it stands at the present time, I should like to know how they do it; and if they can do it under the Act as it stands at the present time legally, I can see no purpose in passing subsection 2.

Hon. Mr. ILSLEY: It is a limitation, that is all.

Mr. TUCKER: I beg your pardon?

Hon. Mr. ILSLEY: The section is a limitation. If a bank is charging more than $9\frac{3}{4}$ per cent now on small loans, this limits them to $9\frac{3}{4}$ per cent.

Mr. TUCKER: On what basis? When there is an actual limit, and the discount rate or interest rate the bank may charge at the present time is 7 per cent, by what right does the bank charge $9\frac{3}{4}$ per cent as it does at the present time? I have often wondered on what basis they do that.

Hon. Mr. ILSLEY: Excuse me, Mr. Tucker. I cannot explain it myself. I heard Mr. Stewart of the Bank of Commerce give his evidence, and he stated that they were advised and satisfied that they had the right to follow the practice that they are following; but it is a complicated practice. They contend they are not charging more than 6 per cent, but it looks very much like 10 or 12 per cent to me.

Mr. PERLEY: He admitted that they were taking a chance.

Mr. TUCKER: If they are able to do that as the law stands at the present time under a section similar to subsection 1, then it reinforces me in my attitude that we should not, on any account, weaken subsection 1 in order to try to deal with these cases of a few people who cannot get ordinary loans of \$500 at whatever legal rate we fix under subsection 1. I submit that the banks ought to be made to feel that they are discharging a public trust, that they are an arm of government, that they are responsible to the representatives of the people in discharging a public trust, and if this could be done you would not find they would say that they would not do at 6 per cent this small amount of business that they will do at 9 per cent but not at 6 per cent; especially in view of the fact that many of the banks to-day are doing a vast amount of business in loans of under \$500 each at under 7 per cent. There are few loans where they say they will not do business at under 6 per cent but would do it at 9. I think it would be a terrible thing to destroy the top limit of interest on loans under \$500 in section (1) in order to take care of the few cases where they will not do business at under 6 per cent and would do it at 9. I submit very strongly, especially to those representing farming districts, that they should be very careful in lifting this top limit that we are proposing to put in this Act in section (1), in order to try to take care of a few hard cases. I submit if the banks think they can take care of them with the Act as it stands at the present time, there is all the more reason for not passing subsection 2.

The CHAIRMAN: Mr. Tucker, may I suggest that evidence was taken in the matter under discussion on Wednesday, May 31, and on June 1, and I commend that evidence to your reading. Now, may I go on to say that having in view the hour it would be just as well to have an adjournment and allow the minister time for reflection on the clause.

The committee adjourned to meet Wednesday at 11.30 a.m.

July 26, 1944.

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, as we commence our forty-fourth session I think perhaps I should just remind you that we have on the agenda, in addition to the bill respecting banks and banking which we are now considering, an Act to incorporate the Industrial Development Bank, a bill to amend the Quebec Savings Bank Act, an Act to encourage the provision of intermediate term and short term credits to farmers for the improvement and development of farms and for the improvement of living conditions thereon. Those are the public bills. In addition we have the following private bills: an Act to incorporate the Workers' Benevolent Association of Canada, an Act to change the name of the Discount and Loan Corporation of Canada to Personal Finance Company of Canada, and to consider the substance of an Act to incorporate the Alberta Provincial Bank. It is the 26th of the month. We are told that the session is shortly coming to an end. It follows that we should expedite our work.

Mr. MACDONALD (*Brantford*): Mr. Chairman, before we proceed with the work of the day, may I remind the committee that when Mr. McGeer was questioning Mr. Jackson on Monday, the 17th instant, Mr. McGeer raised the point that "Sidelights on the Great Depression"—that is the book that was filed by Mr. Jackson—contained a diagram illustrating the decline of Canada's merchandise exports as from February, 1929, but that it contained no corresponding diagram illustrating the decline of Canada's merchandise imports at the beginning of the depression. Mr. Jackson recognized that what Mr. McGeer said was a legitimate criticism of "Sidelights" and he promised that he would repair that omission. Mr. Jackson has forwarded to me two diagrams, with explanatory notes which explain the previous omission. I would suggest that those diagrams with explanatory notes be filed for the benefit of all members of the committee and be printed.

The CHAIRMAN: And you so move?

Mr. MACDONALD (*Brantford*): I would so move.

The CHAIRMAN: Is the motion carried?

Some Hon. MEMBERS: Carried.

Mr. TUCKER: Mr. Chairman, the other day we could not sit because we had not a quorum. I think there were eleven members here and we could not get fifteen. This morning we lost fifteen minutes waiting for a quorum of fifteen, and that fifteen minutes could have been well used, I think. If we are going to sit while the house is in session, it is inevitable that it is going to be hard to get a quorum, and I suggest that we reduce the quorum to ten.

The CHAIRMAN: I think it is the consensus of the committee that with work such as we have before us, and the importance of it, we ought to try our best to have fifteen. History repeats itself. It was some ten minutes before we had ten, so we did not have to wait too long to get the additional five.

Mr. TUCKER: I think it would be wise to take that power, Mr. Chairman; however, if you want to take a chance on getting a quorum of fifteen, it is all right with me.

Mr. GRAHAM: Mr. Chairman, over the night I have been giving some thought to the matter of section 91. I presume that is what we are on now.

The CHAIRMAN: We are on section 91, yes. By the way, Mr. Graham, the minister has a statement to make on section 91.

Hon. Mr. ILSLEY: Mr. Chairman, after giving this matter some further thought—

Mr. MAYBANK: This is on section 91?

Hon. Mr. ILSLEY: On section 91, subsection 2, relating to the small loan business. I think that I would favour the withdrawal of the section. The banks have been interviewed and they give the assurance that they will do the very best they can to develop the small loan business within the present interest limitations, even though it may mean no profit to them or even a loss. I may say that they have been doing some small loan business already, and while I think it is a matter for the committee, I think I would advise that the section be withdrawn.

Mr. GRAHAM: Mr. Chairman, the minister has put in words exactly what I was going to say as to the conclusion that I have come to after thinking it over. I am not quite as alarmed as Mr. Tucker at what would happen if the small loans subsection were left in. You will recall that we examined officials of the bank, and they satisfied me that their own attitude, the method of set-up and the necessity of filing returns with the Inspector General, offered reasonable safeguards against the abuse of that section. If there was no other way of providing cheaper loans to persons on small incomes in times of necessity, I would strongly support the retention of this particular subsection. But the minister has made a point that weighs heavily with me, which is that by deleting it we will not in any way take away the intention or the opportunity of the banks, because after all this section is only permissive and not mandatory. It does not force the banks to go into the business. I feel that, under the circumstances, with doubts in the minds of some of the members, we should delete it; and perhaps when the Bank Act comes up again for revision we will then have the opportunity of finding out the methods and the results of those methods pursued by the banks.

Mr. McGEER: Mr. Chairman, there is only one thing I should like to say in connection with the withdrawal of this section. We had before this committee the small loans situation generally a few years ago. Arguments were presented on behalf of the small loan companies to justify a rate of, I think, $2\frac{1}{2}$ per cent or 2 per cent a month. It had formerly been $2\frac{1}{2}$ per cent, and I think as high as 3 per cent. The argument that was then presented was that there were a great many people with salaries who were faced with emergency circumstances, and that these small loan companies were performing a real service to people in need. We had before us on that occasion Mr. Leon Henderson, who came here as a representative of a foundation in Boston, whose name I just forget at the moment.

The CHAIRMAN: The Russell Sage Foundation.

Mr. McGEER: Yes, the Russell Sage Foundation. He placed before the committee a great deal of information as to the experience in the United States that had been investigated by the Russell Sage Foundation. If I remember correctly, the bill was held up for two years but it was finally agreed that that bill would be passed and the law amended on the understanding that sweeping investigation would be made and that the full facts of the Canadian situation with reference to the good or evil of the small loan companies would be placed before the Banking and Commerce Committee. Whether that investigation was made or not I do not know, but as far as I know it has

never been returned to the Banking and Commerce Committee. Following that, the Bank of Commerce engaged in the small loan business and, according to the evidence we have before us, that business has been a substantial one and a reasonably profitable one. I feel that something should be done to give the Canadian people in need of emergency cash requirements in a way that would improve the situation as it exists now under the small loan companies. I think that the principle you have adopted with regard to small loans to farmers is a sound program. I understand that the proposal in that bill is to give a guarantee to the banks against a certain percentage of their losses, and in that way to aid the banks to offer a service to farmers requiring loans up to \$500. That bill I do not think is in yet, but I understand it is coming in.

The CHAIRMAN: We have it before the committee now, Mr. McGeer.

Mr. McGEER: I have not seen the principle. But what I would like to ask the minister to consider is this: would it not be practical to extend that principle of guaranteeing the banks against losses if they are to be invited into the field to become the kind of competition that will put the small loan companies out of business; to put the 2 per cent rate out of existence in Canada.

Now, let us make an appeal on this ground; there would be an example, and you have developed it, with regard to the farmer. Now, the poor farmer is no different from the poor school teacher or the poor civil servant or the poor mechanic or the poor salaried person. Poverty is the thing which compels people to borrow money. Emergencies of sickness or other circumstances of which there are a great variety do hit a person with small means; but they do not hit a farmer without means any harder than they hit anybody else. Now, if it is sound for the farmer it must be sound for every other Canadian in an emergency position; but by extending that kind of co-operation between the government and the banks you really put into effect a principle frequently enunciated in the phrase, issuing currency and credit in terms of public need, not private gain. If you leave the small loan companies to exact that rate of interest then you will have an issue of currency and credit not so much in the terms of public need as you have it in terms of private gain. I am quite sure every member of this committee will agree with me that the guarantee by the government of a reasonable percentage such as you have in the loans to farmers would certainly not open the flood gates of bankers' small loans to reckless and indiscriminate lending. The guarantee is not going to be sufficient to induce the bankers of Canada to deviate from sound practice of lending money even in cases of emergency and need; but what we would be doing for the great body of our Canadian people, and amongst that body will come back to be added the veterans, a great number of whom are going to meet adversities that are common to our present system; if something along that line could be done a real service would be achieved by both the government and the banking organization. I would ask the minister to consider that.

Hon. Mr. ILSLEY: Well, as I understand the situation, the difficulty in small loan business is not so much losses as it is expenses of carrying on the business.

Mr. McGEER: We went into that pretty well before.

Hon. Mr. ILSLEY: I refer to the investigation costs and the carrying cost of the small loans.

Hon. Mr. HANSON: You mean by the banks?

Hon. Mr. ILSLEY: No, by the small loan companies, and anybody lending on instalments in the loaning of money.

Hon. Mr. HANSON: That is quite true.

Hon. Mr. ILSLEY: And the guarantee is based on the other principle, that there will be certain losses because mistakes will be made in extending credit; in other words, in the credit-worthiness of the person to whom loans are made.

Mr. McGEER: The Bank of Commerce did not find the cost of investigation high.

Hon. Mr. ILSLEY: I think they did. I think there was a lot of expense there, a lot of expense in carrying the loans.

Mr. MACDONALD (*Brantford*): And they told us it was very difficult to segregate the expense of small loans from the expenses of banking generally.

Hon. Mr. ILSLEY: Would it not be well to take up the time of the committee to ask one of the general managers of the banks what they propose to do in relation to the small loan business; I do not mean in the section as proposed, I mean if the present proposed limit of 6 per cent is left in.

Mr. McGEER: Let us have the representative of the Canadian Bank of Commerce.

Mr. DOBSON: Mr. Chairman, all of the banks have done a substantial small loan business.

The CHAIRMAN: A little louder please, Mr. Dobson.

Mr. DOBSON: I said, they have always done a substantial personal loan business. We have never set up a special department for that business, but we have done a large personal loan business. I haven't my figures in front of me but my recollection is that last year we made 350,000 small loans, that is loans below \$500, of which 125,000 were what you would call personal loans. We have probably not gone into that type of business quite as energetically as we might and we are—if this section is dropped prepared to extend it—we have been rather fearful of the criticism which may arise if we are allowed to collect a larger rate of interest for that type of loan. I am quite sure that we can extend our personal loan business much further than we have. I do not think it will be a profitable business, but nevertheless we can certainly increase it.

Mr. MACDONALD (*Brantford*): Is that doing it at the present rate?

Mr. DOBSON: I am speaking of the 6 per cent rate. It would be quite impossible on anything less than 6 per cent. We can go more extensively into advertising and I am quite certain that we can increase that type of loans; and what is more, we will.

Mr. MACDONALD (*Brantford*): Is that the rate of interest or discount?

Mr. DOBSON: That is 6 per cent only; we all agreed that to have the rate expressed in terms of discount is not as satisfactory as to have a specific rate.

The CHAIRMAN: May I just interject for the purposes of the record when you say "we" you are speaking of the Royal Bank of Canada?

Mr. DOBSON: Oh, absolutely. If this section is adopted (I am speaking of subsection 1) and you give us a rate of 6 per cent, we can give you this assurance that we, the Royal Bank, will go all out to try to increase the personal loan business. You must remember, of course, that there will always be use for the finance companies. The finance companies make loans against chattel mortgages and other security of a type which of course we are precluded from taking, so there will always be business in that special field for the finance companies; but so far as we are concerned we will go all out and give you the assurance very definitely to increase the personal loan business on the basis of 6 per cent interest.

Mr. McGEER: Well, are we agreed on that point, that there will always be business for the finance companies to assist people to purchase automobiles, furniture, household equipment and things of that kind—

Mr. DOBSON: Loans made against chattel mortgages.

Mr. McGEER: They are pretty well established, and the small loan companies which charge 2 per cent per month, do not do very much of that kind of business.

Mr. DOBSON: Oh yes, they do.

Mr. McGEER: They do some, but I mean there are other companies.

Mr. DOBSON: There is no one else doing that.

Mr. McGEER: A great many other organizations are financing their own. Now, you take the type of emergency loan for sickness. That is not a very difficult type of loan to make, is it, because in the case of a person being a pauper and having no means by which the loan could be repaid our Canadian cities have means of taking care of them. For that type of person we have in every city in Canada a free hospital service, and the Canadian medical profession has invariably been willing to take care of that type of case whether they could pay for it or not. So that when it comes down to these actual loans which are being made by the small loan companies they are made on the security of the salaried of the community. Will you not agree with that?

Mr. DOBSON: I think the loans they make are made on the security of chattel mortgages to quite a large extent.

Mr. McGEER: We had the evidence before us, and a great many of the loans were made to salaried people.

Mr. DOBSON: That is true.

Mr. McGEER: The making of a loan to a salaried person does not require very much investigation, does it?

Mr. DOBSON: It does in this way that you should at least get in touch with the company that is employing the applicant, and in a large city that often is not so easy.

Mr. McGEER: A man comes in and makes an application for a loan; he gives the clerk his record, says whom he is employed by and whom he has been employed by in the past, and a telephone message is all that is required to check on that, both as to his character and his earning capacity?

Mr. DOBSON: The only bank which really made a thorough investigation of this cost is the Canadian Bank of Commerce and they submitted evidence to show they did go to very considerable expense in investigating the standing of the prospective borrower.

Mr. McGEER: If I remember correctly—and I have not got the evidence before me—I understand the expense there was not very much higher than the expense in the general run of business?

Mr. DOBSON: I do not think that is right.

Mr. McGEER: I do not know who the man was who gave that evidence.

Hon. Mr. HANSON: Mr. Stewart.

Mr. McGEER: Mr. Stewart gave us that evidence that there was not any great additional expense incurred. What I want to get at is this; assuming the same principle was extended to you in the matter of small loans with a guarantee against a percentage of loss would that not substantially increase the scope of your lending activity in competition with concerns which are able to charge 2 per cent per month?

Hon. Mr. HANSON: That is a government guarantee?

Mr. McGEER: The same as you are going to do for the poor farmer.

Hon. Mr. HANSON: The farmer has assets and these people have not.

Mr. McGEER: That is not altogether true. A great many of these small loan borrowers have assets. I know a great many of them who have their homes. We checked up as to the number of Canadian civil servants who were involved in some of these companies and it was a very substantial amount.

Hon. Mr. HANSON: Of course, the civil servants have a splendid system of their own in Ottawa.

Mr. McGEER: I agree. That has developed, but they are not all in it. We checked over on municipal employees and salaried people generally. I remember going into that very carefully, and they were the type of people in addition to the chattel mortgages that the small loan companies thrived on, but putting it to you as a banker, Mr. Dobson, you are going into competition with an outfit that is authorized by the law of this same parliament on the recommendation of this same committee to charge 2 per cent per month. You are called upon to compete with them with a ceiling of 6 per cent a year?

Mr. DOBSON: Yes, but then we are set up in a much different way from what they are. We have much better facilities for handling that type of loan.

Mr. McGEER: Tell me this; you know the provision with reference to guarantees against losses on small loans to farmers?

Mr. DOBSON: A different type altogether, I would say.

Mr. McGEER: You say it is a different type. Is that going to assist you to extend a wider measure of credit to the poor farmers of Canada who require sums of money under \$500?

Mr. DOBSON: That is hardly the type, I would say, but this farm loan bill will, of course, enable us to extend our facilities to farmers very considerably. There is no doubt about that, but it is a type of loan which, according to the Act, might run as long as ten years. We could not very well do that type of business unless we had some government backing behind it, but the personal loans for the most part are made for short periods. I would say a year is the absolute maximum, and sometimes perhaps only three months. I do not think we want a government guarantee in this business; I think we would prefer to be free to go out and get the business and transact it on our own.

Mr. McGEER: As a matter of fact, Mr. Dobson, the small loan companies in some instances borrow money for lending from your banks so that, as a matter of fact, the banks and the small loan companies are joined together in extending credit?

Mr. DOBSON: You might put it that way. All these loan companies, of course, have quite substantial capital of their own.

Mr. McGEER: And they bank with the chartered banks?

Mr. DOBSON: When that is exhausted they borrow from the chartered banks.

Mr. McGEER: Your banks have as clients the small loan companies?

Mr. DOBSON: Just like numerous other types.

Mr. McGEER: And for that reason you are not anxious to put them out of business?

Mr. DOBSON: We are not anxious to put anyone out of business.

Mr. McGEER: No, but we are. Some of us believe exacting a rate of 2 per cent a month on poor Canadians who are forced to borrow as a result of emergency is unsound in principle and in economics, and the suggestion is made by co-operating with you we can do away with the 2 per cent and get these emergency loans for needy impoverished Canadians at a reasonable rate of interest.

Mr. DOBSON: Then we would have to go into the chattel mortgage loan business.

Mr. McGEER: Of course you should.

Hon. Mr. HANSON: Of course they should?

Mr. McGEER: Of course they should. They should provide banking services for the whole of Canada at a reasonable rate.

Hon. Mr. HANSON: Is there anything before the chair, any motion?

The CHAIRMAN: Section 91; Mr. Perley has an amendment, if not two amendments.

Hon. Mr. HANSON: Then this subsection is dropped?

Mr. McGEER: It was not dropped when we were discussing with Mr. Dobson.

Hon. Mr. HANSON: I want to know what the regularities are.

Hon. Mr. ILSLEY: The situation is this; I advised the committee not very forcefully, by leaving it entirely with the committee, to drop subsection 2 of section 91 of the bill in view of the assurance of the banks, but I cannot drop a section of the bill; I am not a member of the committee.

Hon. Mr. HANSON: I am going to move that subsection 2 be deleted from the bill.

Mr. PERLEY: Mr. Chairman, I may say with respect to that I am quite agreeable but as the chairman has mentioned I have an amendment to subsection 1. I want to see some provision for these emergency cash requirements by way of small loans over the term. In order to save discussion I wonder if you would allow me, now that we have dropped this section, to amend my amendment to subsection 1. Where I have suggested that we delete 6 and substitute $4\frac{1}{2}$ I should like to strike out $4\frac{1}{2}$ and substitute 5, that is, make the rate of interest and discount 5 per cent. It might save discussion and facilitate matters if you would allow me to do that.

Some Hon. MEMBERS: Question.

Hon. Mr. HANSON: The question is the deletion of subsection 2.

The CHAIRMAN: Shall we take Mr. Hanson's motion first? All in favour please raise their hands. All opposed please raise their hands. Mr. Hanson, your motion is carried.

(Carried.)

Hon. Mr. ILSLEY: May I just say a word in comment on Mr. McGeer's remarks? I do not think we should go into this pool guarantee principle now. I think we should let the banks have a try at this thing and see how it works out. They have given us assurances and I feel myself they are going to do the best they can to furnish facilities without any pool guarantee. I do not like too great an extension of this list of guarantees. We are always open to the accusation that we are taking the risk out of business and letting business take the profits, and while I may not show any reaction to those charges in the House nevertheless they register. I do not like to carry that too far and besides it is a different class of business entirely as has been pointed out. In the case of agriculture we are anxious to have a healthy agricultural development of the resources of the country. A lot of these loans will be risky. They will be long term loans. These small loans on the other hand are not risky to anything like the same extent. They are merely expensive. I would not like to contemplate bringing in a pool guarantee Act for small loans this session without much more consideration. I think we can very well put the banks on trial on their assurances for the time being.

The CHAIRMAN: Mr. Perley has moved an amendment to clause 91, subsection 1, line 30, delete 6 and substitute 5.

Mr. MACDONALD (*Brantford*): Mr. Chairman, with regard to Mr. Ilsley's former statement, and if I may revert to the statement of Mr. Dobson, I understood Mr. Dobson to say the banks were not going to make small loans on a discount basis but rather on a straight interest rate. I do not know whether he was speaking for all the banks. At the present time the Bank of Commerce, in any event, does business on a 6 per cent discount rate which must amount to nearly an effective rate of 12 per cent. I worked out a 5 per cent discount

at 9½. I am estimating, and I say that a 6 per cent discount which they will now be empowered to use will work out to a rate in the neighbourhood of 11 or 12 per cent.

The CHAIRMAN: Mr. Macdonald, I think I must rule that Mr. Hanson's motion having carried the section has been dropped.

Mr. MACDONALD (*Branftord*): I do not want to be out of order, but I say there is demerit in the section which we are considering, section 91. The words—

The CHAIRMAN: What subsection?

Mr. MACDONALD (*Brantford*): Subsection 1: "Except as hereinafter in this section provided, no branch shall in any part of Canada except in the territories stipulate for, charge, take, reserve or exact any rate of interest or any rate of discount. . . ." Now, there are the words I would like to draw to the attention of the committee "any rate of discount". Does that mean that the banks can, as the Bank of Commerce is doing now, discount a loan at 6 per cent and the borrower pay monthly instalments which brings the effective rate to approximately 12 per cent? I would like to have the opinion of the legal department as to whether or not that can be done under the Act.

Mr. FRASER (*Northumberland, Ont.*): I feel that the point raised by Mr. Macdonald is very exclusive because if we deal with that word "discount" in the way he suggests it would affect commercial loans as well as small loans, and it would affect even the policy of the banks in dealing with overdrafts, because the custom of the banks is to charge their interest monthly on overdrafts or current loans, and that could immediately open up the question of compounding interest twelve times a year and that sort of thing. I think if that were deleted we would have far-reaching effects and ramifications that would not be in the interest of the borrowing public.

Mr. TUCKER: Mr. Chairman, as I understand the section from reading it now it is very difficult to know exactly what a court can do with it. It says that they shall not charge any rate of interest or any rate of discount exceeding 6 per cent per annum. Now, to talk about a rate of discount exceeding 6 per cent per annum it seems to me is not good English, and I suggest to clear up that matter and show exactly what it does mean that after the words "rate of discount" there should be something put in as follows: "where the effective cost of any loan exceeds 6 per cent per annum no higher rate of interest shall be recoverable by the bank". If we want to put in a definite maximum we should use language of which there can be no doubt, and I do not think that the banks were intending to put a top limit of 6 per cent that banks can charge, and we should not permit them to exceed it by taking a 6 per cent discount which means they are getting a higher rate of interest than 6 per cent per annum. I cannot see why, when we do these things, we do not put them in language of which there can be no doubt.

Mr. GRAY: I recall Mr. Stewart's evidence, and I think the discount worked out at something around 11 per cent. I believe we should definitely redraft subsection 1 of section 91. For instance, here are the first words, "except as hereinafter in this section provided. . . .". That is to take care of subsection 2 which has now been deleted. I think subsection 1 should be redrafted. I recall distinctly that Mr. Stewart gave evidence that they had taken their own legal opinion that it was lawful to do this and has gone ahead on that understanding, and I think either Dr. Clark or Mr. Tompkins stated that we had not taken any opinion from our Department of Justice as to the legality of the action of the Bank of Commerce as to what they were doing with respect to the discount rate. This is an exceedingly important section, especially in view of the willingness of the chartered banks to enlarge on this personal loan business and give

it a trial, and we should not have any misunderstanding in this committee; therefore I urge that this subsection be redrafted.

Mr. PERLEY: Mr. Chairman, are we speaking to my amendment now? Is this being changed from 6 per cent to 5 per cent? If so, I would like to say that I would agree with Mr. Tucker on the principle that he has suggested that we might change the wording to make it plainer so that there would be no higher rate of discount recoverable, certainly by the banks.

Hon. Mr. HANSON: May I interrupt a moment? Honourable gentlemen have overlooked entirely the last clause of subsection 1 which contains an express prohibition in the terms you are now seeking: "...and no higher rate of interest or rate of discount shall be recoverable by the bank". I do not know how much stronger you can make it than that.

Mr. GRAY: We had evidence that there was a rate of 11 per cent on personal loans.

Hon. Mr. HANSON: On monthly payments—the personal payment plan. I doubt if it is legal; it has never been decided.

Mr. GRAY: I do not think it is legal.

Hon. Mr. ILSLEY: In the case of the Bank of Commerce the rate did not work out at 11 per cent as the result of the 6 per cent discount or 7 per cent discount privilege; it worked out at 11 per cent because of some arrangement they made for depositing their payments in a savings account running over a year or other term. That is what built it up.

Mr. GRAY: I think we should endeavour to clarify this so that we will know where we are going.

Mr. TUCKER: If the Bank of Commerce can charge an effective rate of at least 10 per cent per annum under this section by virtue of any arrangement they may make then there is nothing to prevent the banks from doing the same for the farmers of the country. Now, we are supposed to be legislating in such a way that we will control these banks, and I am satisfied from reading this section as it is now drafted that it is quite easy to go ahead and charge any rate practically which you want to up to about 10 per cent—an effective rate. Surely we have power to use language to show that they cannot charge the people an effective rate of interest higher than whatever rate we decide on and if they do they are infringing the law. I suggest that we draft an airtight section so that there shall be no doubt about it.

Mr. PERLEY: May I suggest that in so far as discount is concerned we might insert the words that if any higher rate of discount is charged they could not recover the interest.

Mr. McGEER: Can you tell me how the old section read?

Hon. Mr. ILSLEY: The old section read as follows:—

The bank shall not in any part of Canada, except in the territories, stipulate for, charge, take, reserve or exact any rate of interest or discount exceeding 7 per centum per annum and no higher rate of interest or discount shall be recoverable by the bank. . . .

Mr. McGEER: So you have added in there before the word "discount" the words "or any rate of discount"?

Hon. Mr. ILSLEY: The old one read: "any rate of interest or discount".

Mr. McGEER: You have added in here "any rate of interest or any rate of discount".

Mr. MACDONALD (*Brantford*): Three words.

Mr. McGEER: The three words would mean that the banks can establish a discount rate of 6 per cent.

Hon. Mr. ILSLEY: Per annum.

Mr. McGEER: I am not sure as to what that means.

Hon. Mr. HANSON: This was given most careful study ten years ago. I think Dr. Clark will bear me out in that. In the minds of the committee, of the draftsmen, of the Department of Justice and everybody else, they took the view that the banks could not charge any higher rate of interest or any higher rate of discount than 7 per cent, which is now reduced to 6 per cent. I do not think it has ever been tested in the courts, and I question very much if the method adopted by the Canadian Bank of Commerce would stand in law, with this reservation. As the loaning of the money is a contract between the borrower and the bank, they took the view that they have the right to stipulate for monthly payments which they do not credit on the loan but which they put into a rest or amortization fund bearing a very low rate of interest. The effect of that whole procedure is to raise the rate of interest to the borrower. That is apparently the way the thing is got around in their personal loans.

Mr. McGEER: But, Mr. Hanson, do you not think—

Hon. Mr. HANSON: I do not think it was the intention of parliament that that sort of thing should ever be done. If you want to put in a prohibition against it, I am all for that.

Mr. McGEER: Do you not agree that in this section there are two methods by which the bank can lend money, on a straight rate of interest and on a discount rate?

Hon. Mr. HANSON: Yes.

Mr. McGEER: If the maximum rate is to be 6 per cent, why do they need two channels of operation and why not have the 6 per cent rate of interest fixed? Then if they want to do any discount business, they have to do it within the limit of that. If it means that, as they say it does or as the argument goes, then it is not necessary to have the two channels. If it does not mean that, then it must mean something else, and I suggest we call Mr. Gardner and let him explain to us why the banks need these two methods of making effective charges against borrowers.

Hon. Mr. HANSON: I have no objection to hearing Mr. Gardner.

Mr. McGEER: I should like to hear Mr. Gardner.

Hon. Mr. HANSON: I have no objection if you want to hear him. But these two methods of doing business have been in vogue for years; that is, you borrow money with interest added or you borrow money and have it deducted at the beginning. You do not have to pay the discount. A man has the option. The banks will always give you the option. I know I prefer the first alternative. When I borrow, I borrow with interest, and I save the interest on the interest.

Mr. McGEER: Tell me how the 6 per cent annual rate would work out at a discount, assuming that you borrowed the money for three years.

Hon. Mr. HANSON: My understanding is that this term of discount means this. If you go back to your school days, you will remember there is a distinction between bank discount and true discount, and that bank discount is a little greater than true discount. At least, that is my recollection of the thing.

Mr. DOBSON: It is only a fraction of difference.

Hon. Mr. HANSON: I know it is only a fraction, but I quite agree that there is a difference.

Mr. CLEAVER: May I have a moment before Mr. Gardner is called?

The CHAIRMAN: Yes.

Mr. CLEAVER: As I understand it, the minister's suggestion which he now makes is that subsection 2 should be withdrawn from the bill.

Mr. McGEER: It is withdrawn.

Mr. MACDONALD (*Brantford*): It has been withdrawn.

Mr. CLEAVER: Yes, I know. But this whole discussion arises out of that. The reason why the minister has suggested that is the difficulty in being able to find language which would restrict the banks from making the terms of that section which we have deleted apply to all small loans under \$500. Coming to the main problem, the problem of supplying credit to the needy borrower who has no security and who wants to repay in monthly payments, that needy borrower to-day has to pay an effective rate to the existing loan companies of close to 18 per cent, with the exception that one or two of our banks have devised an arrangement which some members think violate the terms of the Bank Act. I do not agree with that, but Mr. Tucker may be right. At any rate, they have devised an arrangement whereby this same needy borrower has been able to obtain his credit facilities for about half of what it would cost him were he borrowing from the loan companies. As I understand it, the banks have given us an assurance that they will try out that scheme and that they will do their best to meet that credit need without any further amendments to the Act. If an attempt is going to be made to so amend the Act that the banks will not be able to enter that field, we have entirely defeated our purpose and the needy borrowers will still have to pay 18 per cent interest to the loan companies.

Mr. McGEER: I take it that you assume that they can charge—

Mr. CLEAVER: I beg your pardon?

Mr. McGEER: I take it that you interpret that this discount power gives them power to charge the rate that the Bank of Commerce indicates, not a 6 per cent maximum?

Mr. CLEAVER: I believe that under the Bank Act, as it was until now, the Bank of Commerce was quite within their legal rights in entering into a contract with its borrowers whereby it would require the borrowers to set aside this special deposit account and pay into it. If we are to withdraw that right entirely from the banks—and we must be realists—and delete that practice, then of course we are throwing all of those needy borrowers back to the loan companies and they will have to pay 2 per cent a month interest. Why would it not be the better part of wisdom to take the banks at their word? They say they will enter this field and will endeavour to supply this service. The borrower will get it at much less cost than he is paying the loan companies. Let us just try that and see how it works for a while.

The CHAIRMAN: Mr. Gardner.

Mr. B. C. GARDNER, General Manager, Bank of Montreal, recalled:

The WITNESS: The argument seems to be on the relative merits of interest and discount. Perhaps we might refer to actual figures. I had them made up some time ago. It is a simple calculation. If a man borrows \$100 for one year, with 6 per cent interest added, of course when he comes to pay, at the time he has to pay \$100 and \$6. If the same \$100 loan is discounted for a year, the borrower gets \$94 and the effective rate on that is 6.38 per cent. That is all that is involved in \$100 borrowed for one year, without any instalment payments, a difference of 38 cents. I would not like to see the committee recommend the doing away with the 6 per cent discount, for the reason that it makes the operation of loaning far more difficult. We get hundreds, yes, thousands of trade bills that are put in to us, say \$146.03 for three months. The discount is taken off and the proceeds are credited to the payee. If you stop us from discounting that kind of paper, the borrower would assumably get the gross amount credited to his account; and then when the note matures you have got to go through the business of calculating how much you are going to charge the borrower at the end of that three-month period. I am talking purely of the technique, not of whether it costs the borrower a little more or a little less. But from the banks' point of view, it would add very considerably, I think, to their cost of operations.

Mr. FRASER (*Northumberland*): It would shackle their operations.

Hon. Mr. HANSON: It is a practical problem.

The WITNESS: It is simply a practical problem. It is true it costs a borrower a little more, but it is the far simpler way of dealing with the business. We do not have any complaints from the vast majority of our customers on the ground of discount. It is only a matter of 38 cents when \$100 is borrowed for the whole year.

By Mr. Fraser:

Q. It would affect your discount business; it would affect the whole of your operation?—A. Yes, we do far more of that.

Q. It would affect the operation of your commercial business?—A. That is exactly the point.

By Mr. Perley:

Q. Taking a hundred dollars in monthly instalments, how would that work out?—A. I have not the calculations on that with me.

Mr. McGEER: The Bank of Commerce gave it to us as being around $11\frac{3}{4}$ per cent.

The WITNESS: Mr. Perley's question is as to the basis on which it worked out when payments are deposited in a separate account on the basis of a specific loan. I think we had that worked out—5 per cent interest gives a rate of $9\frac{3}{4}$ per cent, something of that sort.

By Mr. Fraser:

Q. Is this not a fact also that you would have a good many small borrowers who would prefer to discount it because they would have their interest paid when they paid the balance of the amount.—A. I would say that is generally correct; there would be no more interest to pay, they would have a certain amount to pay and then they would be finished.

Q. They would be finished with the transaction; they would discount \$100 at 6 per cent and that works out that they would get \$94; of course, they would have to pay back \$100 but they would know perfectly that there would be no additional interest at the end of the period?—A. That is right.

Mr. McGEER: But he pays more than 6 per cent on the amount that he actually borrowed?

The WITNESS: I believe the rate is 6.38 per cent if he borrows it for the year.

Mr. McGEER: So that if he wants to make an effective rate of discount on the note interest of 6 per cent you would have to deduct less than 6 per cent.

The WITNESS: That is true of course.

Hon. Mr. HANSON: It would have to be based on what is known as true discount.

Mr. McGEER: Yes, true discount; but you say 6 per cent because you are legally and actually charging more than 6 per cent.

The WITNESS: Yes, the 6 per cent discount is provided for in the Act.

Mr. FRASER (*Northumberland, Ont.*): The next question is this; as far as your discount is concerned the borrower pays back \$100 and he is finished with the transaction then; is it not a fact that you have thousands of loans for discount at 6 per cent or less?

The WITNESS: Yes, 6 per cent is the normal rate; I suppose most of them are carried at 5 per cent or less.

By Hon. Mr. Ilsley:

Q. I think the committee is interested in the instalment business. You make some loans repayable by monthly instalments over a period of time, do you not?—A. Yes.

Q. What charge do you make and how do you make it when you make those loans?—A. In our class of personal loans, and I might say that we have already made since we started in March of 1939 over 90,000 of these loans, and the effective rate of 7 per cent; and we do not run a deposit account and when he pays the sum he pays it actually on the note; and the result is that the rate of interest he pays is within the terms of the present bank Act, which is 7 per cent.

Mr. MACDONALD (*Brantford*): When he makes a payment on one of the instalments, the amount of the principal is reduced and the interest is only charged on the balance?

The WITNESS: Quite; in other words, if you loan a man \$100 and charge him \$3.25 and he pays twelve monthly instalments, the effective rate is 7 per cent.

Mr. TUCKER: That is with regard to your own bank?

The WITNESS: I am only speaking for the Bank of Montreal. As I say, we have made a large number of loans. We started in March of 1939 and we have made over 93,000 loans totalling \$14,791,000.

Mr. McGEER: Have you got any reports on the cost of those loans?

The WITNESS: No, because we run this business as part of our ordinary business, just to throw it into the pot with all the other activities of the bank and I think it would be practically impossible to ascertain what the cost of doing that part of our business would be.

Mr. McGEER: Have you got any review of any type of borrower?

The WITNESS: I do not think I have.

By Mr. McGeer:

Q. Would I be correct in assuming it is mostly the salaria type?—A. What type?

Q. Salaria—salaried people.—A. No, I think not. I can give you a very definite example of our branch at Sydney; since this business was started down there we have made over 2,000 loans, about 2,500 loans, principally to coal miners—

Q. Made to wage earners, salaried people?—A. Well, yes; a lot of railway employees, post office employees and people of that type—school teachers and so on.

By Mr. Graham:

Q. We are proposing to reduce the legal rate of interest and discount from 7 per cent to 6 per cent?—A. Yes.

Q. Have you formed any estimate of what the increase in revenue would result from that reduction in interest and discount rate?—A. I have not made any calculations, but I can tell the committee this; that some months ago we sent out a circular to all of our branches stating that the rate of interest was to be reduced in all cases to 6 per cent throughout the entire field with the exception of personal loans still standing on the 7 per cent basis, and so we have anticipated any action the committee might take of reducing the rate from 7 per cent to 6 per cent.

By Hon. Mr. Ilsley:

Q. The discount on a \$100 loan repayable in a year by monthly instalments is \$3.65, is that correct?—A. Yes. A man borrows \$100, he gets \$96.35—he pays the bank in monthly instalments of \$8.33.

Q. And that is equivalent to a discount rate per annum of 7 per cent?—A. No, I think it is equivalent to an interest rate per annum of 7 per cent.

Mr. McGEER: Instead of deducting 7 per cent you deduct less than that and it balances out so that the effective rate on everything is balanced out at 7 per cent.

The WITNESS: That is right.

By Mr. Fraser (Northumberland, Ont.):

Q. A borrower walks into your bank and he presents a request for a loan of \$100 for say three months, or two months, or whatever it may be; and he borrows for that period and then at the end of that time he finds that he can only pay \$25, so you renew the note and you keep on renewing it until he finally pays the whole amount borrowed?—A. That is right.

Q. So the discount rate is broken down into periods that are convenient or of immediate necessity, is that correct?—A. That is right.

Q. So you cannot figure, Mr. Chairman, as the minister pointed out; you cannot figure except on special cases where the discount rate would apply to the whole twelve months with a monthly payment, because he can discount for one, two, three, four, five, six or twelve months; so that in practice this class of borrower generally receives the money for the period which he considers necessary.

Hon. Mr. ILSLEY: Let me point out this, this is my understanding of it, someone will correct me if I am wrong; the Canadian Bank of Commerce is not relying on section 91, or the 7 per cent discount privilege. That is not the basis upon which they build up—if I might use the word build up—that is not the basis on which they make their charge of 10 and 11 per cent at all. There is something else which results in that.

Mr. McGEER: What is it?

Hon. Mr. ILSLEY: It is the requirement that the money must be deposited in a savings account—something I don't quite understand.

Mr. FRASER (*Northumberland Ont.*): In a savings account which is blocked.

Hon. Mr. ILSLEY: And the savings account is blocked, that is it. They contend that is strictly within the law.

Mr. FRASER (*Northumberland, Ont.*): It is blocked against repayment of the loans.

Hon. Mr. ILSLEY: Yes.

Mr. PERLEY: But the bank can make any arrangement they like with an individual, they discount it at 12 per cent or 5 or whatever they like?

The WITNESS: Yes.

Mr. PERLEY: As long as in the end they do not charge them more than allowed by the Act?

The WITNESS: That is right.

Hon. Mr. HANSON: And you say a great majority of them pay only 5 per cent?

The WITNESS: Yes, the bulk of the loans in amount.

Hon. Mr. HANSON: Did I understand you to say that you made loans at 5 per cent and less?

The WITNESS: I would say that is correct. I have not got my statistics before me so I cannot be sure; I say that subject to correction.

Mr. McGEER: They gave the general rate as $4\frac{1}{2}$.

Mr. TUCKER: What I am getting at is, it is only the outlying districts, such as our unfortunate western country, that pay a higher rate than the rest of the country. When the rest of the country was getting loans at 7 per cent we were paying 8. When the legal rate was reduced to 7 per cent with a penalty we were paying 7 per cent while other parts of Canada were paying 6. Now we are reducing the top rate to 6 per cent, but as I understand from you the bulk of the rest of the country will be paying 5 per cent. If that is correct it is for that reason I am supporting Mr. Perley's amendment because if the bulk of the rest of the country can get interest at 5 per cent then I think we should put on a top legal rate to assist the poorer parts of the country which need that help more than the richer parts, and that the banks should spread their charges around so that the better-off parts will help partly to carry the parts that are worse off.

The WITNESS: That requires social adjustment. That does not require adjustment of rates of interest.

Mr. TUCKER: That is exactly what we are doing when we pass this bill. We are putting a top limit on, and I should think that you will spread the cost around and put some charges on the better off parts of the country which will enable you to make up what you have been wanting to charge in the past in the worse off parts.

The WITNESS: That is a job for the government.

By Mr. Tucker:

Q. It is correct that the bulk of your loans now will be put out at 5 per cent?—A. There is an exhibit here, exhibit 11, average interest and discount rates. Mr. Tompkins brings it to my attention. On the whole amount of all loans and advances mentioned above made in Canada in 1943 the average interest rate is 4·28. I think that answers the question.

By Mr. McGeer:

Q. That included call loans, and eliminating call loans I understand it brought it to about $4\frac{1}{2}$.—A. Small loans—

Q. I said call loans.—A. Call loans are only a comparatively small part.

By Hon. Mr. Hanson:

Q. The fact is that the rate is not based on geographical considerations?—A. No, it is not.

By Mr. Tucker:

Q. Does that rate include loans to the government?—A. Yes.

Q. Does it include short term loans?—A. It includes everything, according to this statement.

Q. That is, the effective rate of interest which your bank received in 1943 was 4·28?—A. I did not catch your question.

Q. The effective rate of interest which your bank received in 1943 was 4·28 per cent?—A. It is all banks.

Mr. McGEER: But not on government loans.

By Mr. Tucker:

Q. What was the effective rate of interest received by all banks on loans to other than governments?—A. I could not tell you that offhand.

Q. I think it would be very interesting. I would like to have that before I vote on this section.

Mr. TOMPKINS: Perhaps I might explain this breakdown. Mr. Gardner has referred to exhibit No. 11 which is at page 118. It breaks down the loans into certain categories in accordance with the returns which the banks submit semi-annually. It has a section for dominion and provincial government loans; it has a section for municipal loans, one for call and short loans, and then the last section for other loans. The average last year on this other loan section—and I take it this would answer Mr. Tucker and Mr. McGeer—was an average interest rate of 4.43 and an average discount of 5.38. That is in regard to ordinary loans excluding call loans and government and municipal loans.

Hon. Mr. HANSON: That would include commercial and draft

Mr. TOMPKINS: Everything.

Mr. McGEER: Make it 4.5.

Mr. TOMPKINS: 4.43 is the average interest rate.

The WITNESS: I think I might be allowed to explain that interest rates are not based on a geographical basis. I should like to make that quite clear. They are based on the risk. We are national institutions; we are not working for the East more than the West.

Mr. GRAY: Is it possible to know what percentage of the loans included in there are call loans, because call loans certainly are a special category?

Mr. TOMPKINS: Call loans are in separately. I have quoted ordinary loans.

Mr. PERLEY: Mr. Chairman, I think we have had almost enough discussion on this matter. We have the statement here that the banks are now charging an average general rate of 4.28. I want to make sure that the western Canada farmers—and there is no doubt that is where the higher rate loans are made—will be put into a class where they will come somewhere near this. My amendment asks for 5 per cent. If you change 6 and make it 5 per cent it will not prevent the banks carrying on as they are to-day in eastern Canada where there are three or four different classes of loans made, where you have given the rates and where it now averages 4.28. It will just make sure that one class of borrower will get it at 5 per cent, not even as low as the average of all other loans. I do not think we are asking too much. There have been pretty exorbitant rates of interest charged in western Canada for a number of years. As Mr. Tucker says there is evidence that the banks were getting 8 per cent when it was 7 per cent, and when it was 8 per cent they were getting 9. If we put 5 per cent in there I do not think we are discriminating, certainly not against these other loans, and we are making sure that one class of borrowers who have been paying exorbitant rates will only have to pay 5 per cent.

Hon. Mr. HANSON: May I ask a question? Do you say that the rates charged in western Canada to-day are exorbitant?

Mr. PERLEY: I would think they were considering the circumstances of the rates that have prevailed last year in Canada. I think this 7 per cent rate in western Canada is exorbitant when we consider the evidence that has been taken before this committee as to what different industries and the government itself are paying. I think 7 per cent is an exorbitant rate. It is quite evident that the minister thinks so when he amends the Act to 6 per cent. All that I want to do is to make sure that a certain class of borrower will not pay more than 5 per cent. The statement was made this morning that on the average all banks are getting 4.28. I think asking for 5 per cent is not unreasonable.

By Mr. Edwards:

Q. May I ask this question? Will the banks be frank and tell us whether or not the principle does not apply to which Mr. Perley has given expression that in so far as western Canada is concerned on farm loans, short term loans to farmers, the banks do not recognize the principle, that they do charge as a matter of course and general practice from 1 to 2 per cent higher than they do in other agricultural communities of Canada?—A. No, I would say that the rate of interest is governed by the risk. The lower you make the maximum rate of interest the less we shall be able to do in the matter of lending.

Q. Quite true, but do you not recognize there is a greater risk as far as loans to farmers of western Canada than eastern Canada?—A. I would think probably statistics show there are more crop failures in western Canada than there are in the good farming districts of Ontario.

Q. Let us admit that as the principle, that the risk involved determines the rate. Do not the bankers as such in dealing with agricultural interests and the small borrowers of western Canada recognize, or does not history teach, that there is a greater risk and that they therefore say as a matter of practice there should be a higher rate of interest generally in the rural parts of western Canada than they have in the rural parts of eastern Canada?—A. I think it is difficult to make a general statement on it because some districts have had good crops over a long period of years but generally speaking I would say that the risks have been found to be greater in western Canada than they are in the east.

Q. And therefore generally speaking the rate has been higher?—A. I dare say that is true.

Q. Surely you know as a matter of practice. I am not satisfied with that answer myself.—A. You would like me to go a little further? I think I will agree with you that the rates are higher.

Q. Let us be fair about it. I think the same thing applies to mortgage companies. In lending in western Canada they do charge 1, 2, 3 and 4 per cent higher than they would for small loans in eastern Canada because of the risk involved?

By Hon. Mr. Hanson:

Q. May I ask the witness a question? Is it not a fact that provincial legislation in the western provinces such as moratoriums and exemptions from seizures is an element of the risk as opposed to eastern legislation?—A. Yes, I think so.

Q. It is an element in the risk. It vitiates your security.

Mr. McGEER: You are putting the cart before the horse.

The CHAIRMAN: Order, please; Mr. Tucker has the floor.

The WITNESS: We have some general managers here who are very familiar with western Canada. I have not worked on the prairies for twenty years. If you really want to go into conditions in western Canada I would prefer to have one of these gentlemen take the stand.

By Mr. Tucker:

Q. You said that the risk determined the rate, but is it not true that in western Canada, particularly since so many branches have been closed and in most small western towns there is only one bank left in each town, that the element of competition which is much more present in the more thickly settled districts of central Canada is not present in the western and maritime provinces, and, therefore, you have not got the pressure of competition to force down interest rates; is not that true?—A. I do not think that has a great effect on interest rates.

Q. You do not think there is any competition between banks in regard to getting business that would tend to reduce interest rates in the central parts of Canada?—A. I did not say that. .

Q. That is what I am asking you.—A. I say that the closing of a branch in one particular point does not have much effect on interest rates.

Q. No, but I am suggesting to you that the element of competition in the central part of Canada, the more thickly settled parts of Canada, forces interest rates much below the legal top limit; is not that true?—A. I do not know that that is true.

Q. Do you suggest, Mr. Gardner, that competition has nothing to do with reducing interest rates in the more thickly settled parts of the country?—A. I do not suggest that.

Q. I suggest that.—A. Now, don't try to take both sides of the argument.

Q. I want your opinion.—A. That is my opinion.

Q. That competition has nothing to do with it?—A. I do not say it has nothing to do with it.

Q. Then it has something to do with it?—A. I do not think it has nothing to do with it.

The CHAIRMAN: I do not think it is necessary to press the question further.

Mr. TUCKER: I am interested in this question, and I want to show that where the top rate of interest is needed is where they have not got competition.

The WITNESS: I do not think that is correct.

By Mr. Tucker:

Q. Why do you say that is incorrect?—A. Why is a fact a fact? I do not know. It happens to be true.

Q. Is not this true, that where we have competition in the more thickly settled parts of Canada this top interest rate will not be effective because your charge is much underneath it already?—A. I think that could be generally true, although you cannot speak generally on this subject. It depends on the standing of the borrower—do not overlook the standing of the borrower.

Q. Is it not true that as a matter of general custom, regardless of the standing of the borrower, in western Canada the policy was to charge at least 1 per cent higher than was charged in the central part of Canada?—A. I would not commit myself to that theory, no.

By Mr. Macdonald (Brantford):

Q. Are there not a great many loans made in eastern Canada at the maximum rate?—A. Yes, there would be quite a few.

Mr. FRASER (*Northumberland*): And many offices are closed in eastern Canada?

The WITNESS: Yes, in the east and in the west.

The CHAIRMAN: I will call Mr. Dobson to the stand.

Mr. DOBSON: Mr. Chairman, as the institution I represent has the largest number of branches in western Canada perhaps I could tell the committee some interesting phases of this matter. We have endeavoured to, and we have followed a policy of equalizing rates between western Canada and eastern Canada, and there is now no discrimination. At one time rates were higher in western Canada; when we were establishing branches in small out of the way communities the rates were higher. Now, we have adopted a policy, and I think other banks are doing the same thing, of equalizing rates. For instance, we are now lending money in western Canada at a 5 per cent. We charge 5 per cent, say to the Dominion Steel and Coal Company who might want

\$100,000 and we lend a rancher at High River money at 5 per cent; so there is now no discrimination. I am sure of that. The rate charged to farmers in western Canada now, for the most part, is 6 per cent, and we charge a farmer in Ontario 6 per cent, and we charge a farmer in Nova Scotia 6 per cent. Furthermore, regarding your other point, the rates charged at non-competitive points are the same as those charged at competitive points. You raised a point about that, but there is no discrimination; the same rates are charged at non-competitive points as at competitive points.

Mr. McGEER: Have you any eastern municipalities you lend money to?

Mr. DOBSON: Yes, frequently.

Mr. McGEER: What rate do you charge?

Mr. DOBSON: Oh, the rates vary. I do not think I could give you the rates—4 per cent, and in some cases $3\frac{1}{2}$ per cent.

Hon. Mr. HANSON: Depending upon the standing of the municipality.

Mr. DOBSON: Yes, the standing of the municipality.

Mr. PERLEY: Do you say that the rate now in force in the west is 6 per cent?

Mr. DOBSON: We have been reducing our rates. And another point I would like to bring out is in regard to your reference to this 4·27 per cent or whatever it was—I think it was 4·55—included in that rate, which is the net rate that the banks get, are large loans to the Canadian Wheat Board at 3 per cent. They borrowed on an average last year \$50,000,000. That average rate also includes large loans to elevator companies where the rate is around $3\frac{1}{2}$ per cent against warehouse receipts. Then, also included in that are large loans and many loans to purchasers of victory bonds at the time of victory bond sales. Temporarily there were large loans made sometimes as low as $1\frac{1}{2}$ per cent the coupon rate. Those special loans pull down the average rate to that which is shown in the statement. So you could not say that the average rate for commercial business is $4\frac{1}{4}$ per cent.

Mr. PERLEY: You admit, then, that the average rate is lower than 5 per cent all over Canada at the present time?

Mr. DOBSON: Lower than 5 per cent? I do not think I said that, did I? I did not say that. I think the table showed that the average rate which the bank collected during the year was less than 5 per cent, but I explained that was because of these special loans being included in the table—that brought the average down.

Mr. PERLEY: There would not be any great objection to inserting the word "five" in here?

Mr. DOBSON: A very great objection in my judgment, yes, very great.

Mr. EDWARDS: Will you clear up the question as to what is the rate charged to elevator companies for grain?

Mr. DOBSON: It varies; against warehouse receipts the rate is $3\frac{1}{2}$ per cent.

Mr. EDWARDS: That is in the country elevators?

Mr. DOBSON: No, those are terminals; the country elevator rate is around $4\frac{1}{2}$ per cent, as I recall it.

Mr. EDWARDS: And the terminals?

Mr. DOBSON: $3\frac{1}{2}$ per cent on warehouse receipts at terminal points.

Mr. EDWARDS: And substantial sums are involved, are they not?

Mr. DOBSON: Yes.

Mr. EDWARDS: Now the question in my mind with regard to that is this: the project is owned by the Dominion of Canada, that market is assured, and

yet you lend short-term loans to the dominion government at less than one-half of that very same rate and yet we are paying $3\frac{1}{2}$ per cent on warehouse receipts; where is the risk in that?

Mr. DOBSON: The risk is almost nil—we are lending against the highest type of securities when we have terminal elevator receipts—you are talking now about line elevators?

Mr. EDWARDS: Yes.

Mr. DOBSON: There is a big service given in connection with line elevators that does not apply in connection with terminal elevators, and that class of loan has always carried a higher rate.

Mr. McGEER: What do you mean by big service?

Mr. PERLEY: You said the elevator companies got the money at $3\frac{1}{2}$ per cent.

Mr. DOBSON: Against warehouse receipts.

Mr. PERLEY: Yes. They in turn can make an advance to the farmers, and they do, and they charge at a greater interest rate than that. I would like to see the farmers come in and get short-term loans and get them at a reasonable rate of interest. I can appreciate that they cannot get it at $3\frac{1}{2}$ per cent, but they borrow and get it now from the elevator companies. The terminal elevators have interior elevators throughout the country, and once the wheat is there the storage receipt is issued and they lend money to the farmer on that and charge 6, 7 and 8 per cent.

Mr. DOBSON: The elevator company?

Mr. PERLEY: Yes, the elevator company. What I want to make sure is that the farmer can go to the bank and get two or three hundred dollars for a month or so, and can get it from the bank at a reasonable rate, and 5 per cent would be lots.

The CHAIRMAN: Are you ready to vote on the amendment?

Some Hon. MEMBERS: Question.

The CHAIRMAN: The amendment we are voting on is by Mr. Perley, to clause 91 subsection 1, line 30, delete "six" and substitute "five". All in favour please raise their hands? All opposed their hands?

Mr. PERLEY: I should like to have a recorded vote on this.

Mr. FRASER (*Northumberland, Ont.*): Sure. Let us have it.

Hon. Mr. HANSON: Put us on the spot.

Mr. FRASER (*Northumberland, Ont.*): Cheap advertising.

The CHAIRMAN: The clerk will please call out the names.

(The amendment was negatived on a recorded vote of five yeas and fourteen nays.)

The CHAIRMAN: The amendment is defeated. Mr. Perley, do you withdraw your second amendment for the sake of convenience, or concede it lost on division?

Mr. PERLEY: As I understand it, that clause is deleted?

The CHAIRMAN: Yes.

Mr. PERLEY: Yes.

The CHAIRMAN: Then shall the clause as amended carry?

Some Hon. MEMBERS: Carried.

An Hon. MEMBER: How was it amended?

The CHAIRMAN: It was amended by withdrawal of the section.

Mr. TUCKER: You are going to redraft it because you have got to strike out the words "except as provided in the succeeding subsection" and I suggest that, when you do redraft it, you clarify it.

Mr. TOLMIE: The opening words, "except as hereinafter provided" are there to take care of the minimum charges provided in subsection 3; the minimum charges of 50 cents and \$1.

The CHAIRMAN: Shall clause 91 as amended carry: carried.

We will meet again at 4 o'clock this afternoon.

The Committee adjourned at 1.15 o'clock p.m., to meet again at 4 o'clock p.m. this day.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Is it the pleasure of the committee to revert to section 5?
Some Hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Perley has an amendment.

Mr. PERLEY: Mr. Chairman, I have an amendment to this section to the effect that a charter be granted for two years, and in the meantime to have what I would term a thorough investigation into the whole banking business. I do this because I had some experience in 1934 when we were revising the Bank Act. I now see that we are going through practically the same performance on this occasion as we did in 1934. We have, to a great extent, had the same questions asked and practically the same answers given. There are only three members of this committee, I think, who were on that committee. As I say, we are going through practically the same performance to a very great degree. I wanted to say that there was one exception with respect to that, that we had before us then and we considered a report of the Macmillan Commission that had been set up by Mr. Bennett. Some of the amendments considered then and put into the Act were as a result of reviewing their report. Certainly I think it may be said that it was as a result of that report that the Bank of Canada was set up. There was, as I say, that exception to what might be termed the ordinary procedure that has been going on here, which is more or less routine. We know that the minister has the support of the majority of this committee practically. I am not saying that he tries at all to influence them, but it is the ordinary thing that prevails; going back to other years, 1934 and 1924, if you will look at the records you will find the same thing applied. I say the banks have had quite an advantage in financing the affairs of this country. I referred the other day to their financing of the western crops. We know what happened. I referred briefly the other day to the time that the pools got into a little difficulty and came down here. The banks had refused to carry them. They had appealed to the province; the province of Saskatchewan refused to help them and they came to Ottawa. You know what happened without my going over it again. The government of the day had to come to the rescue. There have been three or four different proposals made to this committee. We have one along the line of the C.C.F. idea of nationalization of the whole affair and all the banks. We have the one set out by the Social Crediters who would provide, as they say, for tax-free money, supplying the necessary funds for purchasing power and so on. Then we have had other suggestions made by Mr. McGeer and Mr. Slaght. I might say that to some extent their suggestions have been a little confusing, but I have tried to listen carefully. I think they have made some practical suggestions to this committee. They have obtained very interesting admissions from Mr. Towers. I

think some of the suggestions in the proposals they have made, as I say, are bordering on the point of being practical and I think are worthy of consideration. If we had a commission such as I suggest, these men could appear before that commission as witnesses, and I think it would be something well worthwhile. I think, Mr. Chairman, there is no sense in this committee blinding itself to the fact that there is a great body of public opinion across Canada that thinks there is something wrong with the system as it is working and as they have seen it working. Therefore that is one of the reasons that I have suggested to this committee that a thorough investigation be made into the whole business, reviewing the past three or four years which have been the most critical period of financing, I think, in Canada and also looking into the future with respect to financing the post-war period. I do not think there has been any evidence produced here that the chartered banks could have carried on in the last three years of financing this country without the assistance and the aid of the Bank of Canada. I think that is quite conclusive.

Mr. McGEER: They did not want it in 1934.

Hon. Mr. HANSON: They did not want what?

Mr. McGEER: The Bank of Canada.

Hon. Mr. HANSON: We did not object to it.

Mr. PERLEY: We are entering a very critical period in the next three or four years in the financing of this country. I think the banks have never, in critical periods such as we have gone through in the last fifteen years—and we have had two of them that we know of—come to the rescue in an emergency situation without being invited at least, or instructed or you might use the word forced by the government of the day to do so.

There are three or four occasions that I could mention to illustrate what I mean. I was a member of the banking committee in 1934 to 1935. That was a very critical period in 1932, in particular, because it was necessary then for the government of the day to do a lot of refinancing. I recall that I was a member of the Banking and Commerce Committee, as I say, and the government of the day had to refinance practically \$560,000,000. The biggest part of that was loans that had been put on during the war, in the fifteen years before. They were maturing. The loan of 1917 was maturing in 1932. I was a member of the committee of our caucus that met Mr. Bennett at the time and we knew what was going on. I say that the banks at that time failed the government and the country to do their part as they should have in refinancing that \$560,000,000, the greater part of which was victory loans of 1917.

Now I am going to recall what happened. Mr. Hanson is here. He was a member of that committee and he will verify what I am going to say. The government, as I say, had to raise this amount of money. They called on the banks. The banks refused to consider it, unless they got a greater percentage of interest, a half of 1 per cent more interest and more commission. Mr. Bennett, who was Minister of Finance at the time, refused that and then he went to New York to see what he could do down there. They were in touch, and they knew the verdict that was rendered to him there. He came back and our Canadian banks still wanted more interest and a greater commission. He had made up his mind that that would not be. We were passing through a very critical period with respect to the depression, as you know. Now, what happened? He called them in again and discussed it and he gave them this ultimatum, that a loan would be put through at one half of 1 per cent or more less interest and less commission.

Mr. TUCKER: What was the rate there?

Mr. PERLEY: I think it was 3 and something per cent—3½ per cent. Anyway, they refused. He said, "This thing has got to go over. We have got to have the confidence of the public. If you do not back me up in this, I will nationalize

the whole system." That is the first threat that was made to the banks of this country that they would be nationalized, and that there would be a nationalized system. He said furthermore, "This loan is going over, there is no question about it, and each bank has to subscribe and put its name on the dotted line for so many million dollars, so that we will advertise it to the public when the loan starts." On the third day that the loan was open to the public they advertised that so much had been taken up. He told the banks, "If the public takes it all, you will not get any; you will get some only if the public do not take it all." I am rehashing this for the benefit of the committee.

Mr. McGEER: What year was that?

Mr. PERLEY: In 1932. I may say that there are some of the representatives of the banks sitting here, and they know what I am talking about. Anyway, Mr. Hanson was a member of the committee and he knows.

Mr. RYAN: Is that private information?

Mr. PERLEY: That was public information. That was the situation as it took place in his party, about the banks, when the loan was put over.

Mr. RYAN: That was private information.

Mr. PERLEY: It was offered to the public, and the second or third day they announced that so much was taken and so on; then the final result was that nearly 70 per cent of the loan was taken by the public and the banks were allotted what the public did not take. Whether they took it or not, I do not know. As I say, they were allotted that much.

Mr. McGEER: Was there ever any evidence given that Mr. Bennett threatened to nationalize the banks if they did not reduce the rate of interest?

Mr. PERLEY: The evidence was we knew what was going on, and he came before the committee. I knew that. As I say, we knew the circumstances. If you look up the records of the House of Commons, I think you will find something of it there. I have mentioned the Saskatchewan pools. I do not know whether Mr. Clark had come into the picture then or not. However, another case is that of the pools, when they got into trouble. I am not going to rehash that. We all know what took place there. The government had to come to the rescue of that organization in western Canada. Another one is one that is well within the memory of the members of this committee who were here in 1932 and 1933. What happened at the time the Sun Life got into difficulties? Look up *Hansard* and you will see the debate that took place in the House of Commons then. You know what the government had to do at that time, at that time when the banks refused. As I say, these are three instances that I have given where there was a certainty of failure. Mr. Bennett, knowing at that time that the Bank Act would be revised in 1934, set up the Macmillan Commission and we had that report that was before the committee; and as I say it resulted in certain amendments and it really resulted in our having the Bank of Canada set up.

I want to ask the committee what the banks have done for establishing industry in western Canada? They have failed in that respect. I have made a suggestion which I think is worthy of consideration. There is no great haste that I see. The minister had a bill put through the other day extending the charters to September. A bill could be put through for two years under the amendment, and we could have this investigation. And the minister, knowing the difficulties in respect to the banks' business and the country generally would have been well advised to have had an investigation similar to the Macmillan Commission set up a year ago, which would have looked into conditions of agriculture and industry generally as well as banking. Such a commission could have looked into the future and seen the difficulties facing this country.

Now, I say this, that if you do not do that this may be the last time on which you will extend the charters; because, as I said before, public opinion is such to-day that it is doubtful that you will not be up against a more difficult proposition as time goes on, and when the time comes again to submit a renewal of the charters.

I may say that during the session we have had some very interesting evidence from Mr. Towers and others which was provided in examination by Mr. McGeer, Mr. Slaght, Mr. Blackmore and others of the committee; they brought out lots of very important information from the several witnesses and it has been put on record. I would suggest to the members that they read carefully Minutes of Evidence and Proceedings numbers 27 to 35 and note some of the admissions that were made by Mr. Towers. I have made a few notes here as I went along—there are the sittings of the 21st, the 22nd and the 27th of June. Mr. Towers said in one of his answers as recorded here that there was no curtailment or lack of cash for the chartered banks to carry on owing to the fact that we had the Bank of Canada.

Mr. GRAHAM: I suggest that he did not make that as an admission; I would think that the use of the term "admission" would be wrong.

Mr. McGEER: In any event we have been pretty short of cash.

The CHAIRMAN: Order, gentlemen; Mr. Perley has the floor.

Mr. PERLEY: He admitted—it is in the record—there is no lack of cash for the chartered banks to carry on with owing to the existence of the Bank of Canada. Another one was with respect to the issue of currency in order to overcome the depression. Another one was the admission with respect to inflation and the control of prices, in answer to Mr. Blackmore. Then he said in reference to price control that if left long enough it will lead to state ownership. Some members of the committee asked him how long, what period did he think price control would continue before it would bring about that situation and he was not prepared to state how long. But he said that would be the result if too long. Now, I think that is an admission that what we are trying to do to prevent inflation would bring about state ownership if we have it working long enough.

And now we are looking for a balanced and expanding economy in Canada, and an approach to that balanced economy is an absolute requisite and necessity. I might go far enough to suggest some basis for that economy, and I think it should be found in the products of agriculture and I would mention wheat—that is just mentioning one specific thing. I think if we had such a committee set up as I have suggested these matters could be brought before its attention in a more adequate manner than they have come to the attention of this committee in the evidence we have heard here. It is not always easy to get information we want from witnesses appearing here.

And now, I am not going to labour longer on this thing. I think a review of the whole evidence taken here will support my point. I used the term "admission"; yes, admissions to Mr. McGeer, Mr. Slaght, Mr. Blackmore and other members of the committee by the witnesses; and they are worthy of consideration. I think as a committee we would be well advised to proceed along that line. If you want to establish confidence in the public to-day in our banking system, that is what should be done. As I said before, there is no great hurry; these charters can be extended for two years and in the meantime we could have a thorough investigation by such a commission as we had in 1934, appointed by Mr. Bennett (Right Hon. R. B. Bennett). As you will recall, the report of that committee made certain amendments to the Bank Act which while perhaps they did not go quite as far as some of us had hoped at that time, did contain a suggestion for the cancellation of the issue of currency to the extent of 75 per cent.

Now, Mr. Chairman, as I say, I am not going to detain the committee any longer. I think my suggestion is a reasonable one and I hope the committee will give it consideration.

The CHAIRMAN: Are you ready for the question?

Mr. TUCKER: Mr. Chairman: we are asked by this Act to give the banks the right to go on without any responsibility to the representatives of the people for a period of ten years. It might be said I know that parliament at any time could intervene if the banks are not carrying out the wishes of the government; but under our constitution it is well known that the government could not, and parliament could not intervene, without the assent and consent of both houses of parliament, both the Senate and the House of Commons. Once this Act is passed the banks themselves could carry on as they saw fit for ten years regardless of the will of the elected representatives of the people as they will be from time to time following subsequent elections. Now, it may have been all right at one time to give the banks the right to be above responsibility to the representatives of the people, as you do when you give them a renewal of their charters every ten years, but I do not think it should be done to-day. By doing that you make it possible for them to ignore the will of at least one House of Commons and perhaps two. In view of the fact that—and I am putting this forward with every sincerity—it is generally considered by the people, by the government of the day and by parliament that the banks are performing what is essentially a public function; for one thing they have been given the right to create at least 90 per cent of the actual money of the country. It is quite true that now we have a certain control in the Bank of Canada. I am very happy at the progress that has been made, particularly during the last nine years; and I want to commend the government for the progress that has been accomplished. But a provision whereby the banks would have to go back to parliament and satisfy each parliament and the House of Commons in each parliament that they have properly discharged their great public function is an extension of what we have done in setting up the Bank of Canada to more or less control the situation. There is no question as to that; we have not completed our control of the banking system until we do bring that about. If we pass this bill giving them the right to carry on for ten years and then pass the Farm Loans Improvement Act we have created this situation; it has been admitted and the minister has stated on the floor of the house, that in carrying out their duties under the Farm Loan Improvement Act the banks in effect will be carrying out a governmental function. We are setting up an arm of the government to directly handle industrial loans; and the reason why we are not setting up an arm of the government to directly handle loans to farmers on intermediate terms is because it was deemed that the banks could discharge that function better than any emanation of the government and at less expense.

Now, having confided to them that important task it seems to me the government should be desirous of having the right of saying to the banks during the course of the next parliament you have or you have not carried out the functions we intended you to carry out under this Act. If we pass this bank charter for ten years there is no way in which we can say to them that the intentions of parliament have not been carried out under the Farm Loan Improvement Act and we will find ourselves in the position of having passed an Act in respect to which if the banks are not willing to co-operate wholeheartedly the whole effect of the legislation proposed will be nullified. It can be nullified not only during the next parliament but it can be nullified perhaps for another parliament. We might be forced into the position where we might have to set up a brand new organization to carry out the purposes which we had in mind when we passed the Farm Loan Improvement Act. I submit that for the representatives of the people at this time to say that they would turn over the entire control of the manufacture or creation of 90 per cent of their money, turn

over the handling of this most important function of providing intermediate credit to farmers and simply take the very vague suggestion in regard to small loans which was made this morning that they are going to try and see if they cannot do better about it, and say on that basis we will extend their charters for ten years, is, in my opinion, an abdication of our duties as representatives of the people in undertaking to control and guide the destinies of this country.

As I say, I realize when the government brought this bill in they were following along the usual course of affairs. It was usual to extend the charters for ten years, but I realize that within the last ten years there has been a great change in the attitude towards banking functions. I remember, for example, when it was first suggested that the Bank of Canada be brought into the situation and more or less control it. The banks opposed it almost unanimously. Now they realize it is a good thing. I suggest this also is a good thing because unless the banks are kept, in the discharge of their public function, responsive to the people, unless they realize they are responsible to the people as to how they discharge the great function which is given to them, it may lead to their charters not being renewed at all and the nationalization of the banking system. The surest safeguard against the wiping out of individual enterprise and private enterprise is that it should be conducted with an eye to the public welfare. The surest way of keeping that administration conducted with an eye to the public welfare is to see to it that it is made responsible to the representatives of the people.

All of our other organizations of government are so set up that they must account every year. The Bank of Canada must make a report to the Minister of Finance every year and that report can be discussed in the Banking and Commerce committee.

Hon. Mr. HANSÓN: How much control have the members of parliament over the operations of the Bank of Canada?

Mr. TUCKER: They have this much control that when the report of the Governor of the Bank of Canada is made to the Minister of Finance and tabled in the House of Commons any member can ask that that report be referred to the Banking and Commerce committee, and so far as I know it will be done. Then the Governor can be called before that committee and asked to explain various actions or failure to act. If it is shown to the satisfaction of the committee that there has been some action that has not been right or that there is something which should have been done that has not been done, the Governor is under the control of the government of the country under the Bank Act as it stands at the present time.

Hon. Mr. HANSON: Government—that does not answer my question.

Mr. TUCKER: The government would be very responsive to the evidence that would be brought out in the Banking and Commerce committee. We have absolute control. The government is responsible to the representatives of the people and therefore the representatives of the people through their government in each parliament have absolute control of the Bank of Canada.

Mr. FRASER (*Peterborough*): Not a bit.

Mr. TUCKER: Of course they have. The government has absolute control of any decision the Governor of the Bank of Canada wishes to make. He can be reversed by the wishes of the government of the day, and the government of the day can only stay in office when it has the confidence of the representatives of the people. I do not think there is any possibility of arguing against that point of view.

Mr. CLEAVER: Would you mind an interruption? Do you believe that by issuing charters to the banks for ten years that that would preclude parliament

from referring to the Banking and Commerce committee any problem in regard to the operation of any of the banks which might occur in any year?

Mr. TUCKER: I do not suggest anything of the sort. I said at the outset that once we have renewed these charters the banks need pay no further attention to the will of the House of Commons nor to this committee for ten years.

Mr. CLEAVER: Oh no.

Mr. TUCKER: There is no question about that. The government may be dissatisfied; the House of Commons may be dissatisfied, but there is no way in ordinary peacetime—I am leaving out of account wartime and the War Measures Act—in which the government of the day or the representatives of the people can in any way change the situation unless they can get the consent of the other house. That is not the position in regard to the Bank of Canada.

Hon. Mr. HANSON: I challenge that.

Mr. TUCKER: You can challenge it all you want to but it is the truth and in my opinion there is no way in which it can be controverted. I may be wrong, but I am submitting the thing as I see it. If my friend, Mr. Hanson, can show in what way I am wrong and satisfy me, which I doubt—

Mr. CLEAVER: If any problem should arise which we cannot actually foresee the House of Commons could at any time in any session amend the Bank Act.

Mr. TUCKER: The House of Commons cannot amend the Bank Act without the consent of the Senate.

Mr. MACDONALD (*Brantford*): Does not that also apply to the present Act? Does this present Act when it has passed the House of Commons not have to be approved by the Senate?

Mr. TUCKER: Exactly, and I say for the very reason raised by Mr. Cleaver that the representatives of the people who insist in having control over taxation and all monetary and fiscal matters should now realize that they should keep close control over this question of banking, not give it into the hands of the Senate as well as the House of Commons, but keep it right in the hands of the House of Commons. We have control of the Bank of Canada to-day. We have control over every other emanation of government.

The CHAIRMAN: Mr. Tucker, may I just ask if that would not apply to the Bank of Canada as well?

Mr. TUCKER: By the Bank of Canada Act the decisions of the Governor are subject to the will of the government of the day, and the government of the day is responsible to the representatives of the people in the House of Commons. Therefore, the House of Commons is in control in the last resort of the actions of the Bank of Canada.

Hon. Mr. HANSON: No, no.

Mr. TUCKER: Of course they are. They were not when you set it up to begin with but they are now by subsequent amendments introduced by this present government since 1935.

Hon Mr. HANSON: I will venture the Minister of Finance will not say that.

Mr. TUCKER: You are probably thinking of the way you passed it. We amended it while you were out of the House during the period from 1935 to 1940. So I say, Mr. Chairman, in order to retain control of this most important function we should only renew these charters from parliament to parliament. Take, for example, the question which has been mentioned by Mr. Perley. It is no accident things are happening as they are happening in western Canada. There is a deep-seated feeling in western Canada that the policies of this country are controlled too much by the central part of Canada in the interests of the central part of Canada, not only tariff policy, but fiscal policy. Surely the very

least concession that you can make to the people of western Canada is to give them the right, at least, to call these people in and make them tell what they have done. There is no doubt in the world in the minds of the people of western Canada that there are many industries that should have been established, which are indigenous, as you might say, to our western economy, that have not been established. They have not been established because the control of the banks is largely in the hands of directors elected by the central part of Canada.

Mr. CLEAVER: Mr. Tucker, if you believed that should you not have called evidence to that effect before this committee?

Mr. TUCKER: I do not need to call evidence. I have lived in western Canada all my life. I have seen what I have seen.

Mr. McGEER: And he went through the Saskatchewan election.

Mr. TUCKER: I went through the Saskatchewan election. I know what the people there think. I know there is a reason for some of their thoughts in regard to the fact that the policy of this country is dictated too much in the interests of the central part of Canada.

Mr. MACDONALD (*Brantford*): You do not agree with that?

Mr. TUCKER: I certainly do. I believe it is dictated.

Mr. PERLEY: There is no evidence to the contrary yet.

Mr. TUCKER: There is evidence to that effect in the industries that have been established in the last twenty years, all in the central part of Canada.

Mr. JACKMAN: How about the war industries of the Liberal government?

Mr. TUCKER: In regard to tariff policy it was designed to benefit the central part of Canada.

Mr. MACDONALD (*Brantford*): You are not suggesting that the government establish industries in the central part of Canada?

Mr. TUCKER: I am suggesting there are certain industries that have been established in central Canada during the war period which should have been established in western Canada and also in the maritimes and have not been. To come back to the central thought which I am trying to emphasize—and I do not think I should have to quarrel with Liberals on this point anyway—there has always been a struggle by Liberals to get control over monetary, fiscal and all other matters that had to do with the finances of the people, and that fight has not been easy: the control over taxation, the control over the spending of government money and so on; and now we have got to the point where there is a demand for control by nationalization. The people are saying that the banks are run by the directors who are responsible only to the shareholders of the banks, that they run those banks only with a view to benefiting the banks and their shareholders without regard to the best interest of the country as a whole; their primary interest being to protect the interest of their shareholders.

The CHAIRMAN: Mr. Tucker, may I suggest that you speak a little more slowly if you want to be reported.

Mr. TUCKER: I did not notice that the reporter was complaining.

Now, Mr. Chairman, as I was saying it has been a struggle on the part of the people in all British countries to get control over their own monetary affairs, and because there is a feeling that we have not control over the way the banks act there has been a demand to take them over and operate them by the government. I am saying this that if we continue to let this important public franchise be operated by private people in the interest primarily of private people without regard to public welfare, except as it may be regarded as possible subject to their primary regard for their own interests—if we do not call them to account and do not reserve the right to call them to account through the representatives

of the people as they are elected from time to time, the demand for the nationalization of this system is going to become so strong that we are going to have nationalization of the banking system. Perhaps I am making the last appeal of this nature that will be made. I am satisfied in my own mind that this is so: if we do not retain control of the banking system in the hands of the representatives of the people and make the banks responsible to the representatives of the people for the way in which they administer the great trust which has been given to them, then I am satisfied that the people will say, "apparently, the only way in which this can be done is to take control of the banks by the government."

As I have pointed out before, I am not one who thinks that the solution of these problems is for the government to try to take over everything; I think that these things will be better operated in the hands of private individuals; but I think at the same time that the representatives of the people should have the right to call these people to account and ask them how they have done and direct them in what way they want the public welfare observed.

So as not to labour the point—I think I have put it as concisely as possible and I do not want to take up too much time—I am suggesting this: we are now meeting on the eve, I hope, of victory whereby we are going to enter into what the Prime Minister has referred to as a new order, and we do not know at this time to what extent we are going to require the co-operation of banks on a much greater scale than we ever have required it in the past. Mr. Perley has referred to the period from 1930 to 1935 and he has referred to the failure of the banks to assist the government of the day in dealing with the terrible problem which it faced at that time, and he has pointed out that the threat of nationalization had to be levelled against the banks. Well, if it had not happened that the government of the day was sure that it had the support of the upper house, that threat was an empty one; they could not have nationalized the banks. And if the banks were sure that in their policy, of, perhaps, reactionary non-cooperation they had the support of the upper house of our system of parliament our government having passed this bill without the proposed amendment would lose control of the main arm by which it proposes to fight the battle which lies ahead in bringing in the new order. I do not think it is good enough, Mr. Chairman, to simply say: we will renew these charters for ten years and trust to the assurances of certain representatives of private institutions who come before us. That is abrogating our duties as representatives of the people to keep control of these most important matters, and I do not think it is good enough for the people we are sending out of this country and who expect that we will protect their interests and their rights when the war is over and when we are trying to re-establish this whole country on a proper basis.

There is the question of the rate of interest. We are told, for example, that in parts of this country 5 per cent is the usual charge; we are told that farmers are being charged 6 per cent. We are told that in times past there was discrimination against western Canada, but now it is not going to be the case any more. Was not that a terrible state of affairs, Mr. Chairman, when there was discrimination in this most important matter and the entire parliament or the government could do nothing about it? Now, I am suggesting to you, Mr. Chairman, that we should see to it that there cannot be a recurrence of this situation; that if we see there is discrimination against any occupational group in any part of this country we have the right to say that it will be discontinued, or to pass some proper law against it, or in some way to take control of the situation. There is the question, as I say, of interest rate to farmers. There is the question of the vast number of workers, the wage earners who have occasion to borrow small sums of money. We are told by

the banks, but they are not bound by this in any way, that they are going as a public service into this field. Well, they might enter it in a way they figure was on quite a generous scale but it might not be on nearly a big enough scale to satisfy the representatives of the people. So let them have some right to do something about it in the next parliament or in the parliament after that. After all, our best way of dealing with this problem is the way in which we dealt with the problem of intermediate credits to the farmers: do it through the established credit institutions; but if we actually renew these charters, there is no way in which we can take control of the situation again unless we have the concurrence of the upper chamber.

There is the question of the volume of credit. It has been brought out time and time again, Mr. Chairman, that you can bring pressure on the banks to extend credit by issuing more money through the Bank of Canada and using that money to buy securities from the government. It has however been brought out that the banks, if they do not see fit, can to a large extent thwart that desire to prevent depression by refusing to take as many chances as we think they should in not collecting or not making loans. There is no doubt, Mr. Chairman, about this; I lived through it and I saw good friends of mine worried to death by what was going on; farmer after farmer pledged everything he had to the bank including his land and his homestead; they found themselves harassed by banks in order to get their debts paid up. Now, the banks would say, of course, what else could we do? We have our obligation to our shareholders. But in time of stress there is a good deal of difference between not lending money to people and forcing repayment of loans, thereby taking money from people who cannot afford to pay it and are actually depriving themselves of putting that money to some other useful purpose. Now, the banks are answerable only to themselves for the way they acted; in fact they take the attitude: "We are private institutions. We have a right to answer to our shareholders. We have our charters. There is no provision for any control over us and therefore we will act as we see fit." It must be brought home to the banks that they have been given a franchise to act as an arm of government, and that they are responsible to the representatives of the people as to how they discharge that responsibility. I say again, in these matters, unless we make it clear to our people that we have control over these people, the demand that they be brought under governmental ownership and control will become irresistible.

Then there is the question of where that credit will be extended. What has happened in the past has been that the banks come along and they get a charter for ten years. There is this usual investigation into their activities. There are complaints made on behalf of western Canada and on behalf of the maritimes, that the banks are not as favourable to those parts of the country as to the central part of Canada. We have the same attitude taken, that they are going to handle this thing fairly and so on, and the charters are renewed. Once the charters are renewed for ten years, the banks know very well that they do not have to answer to anybody as to what they do. I, speaking on behalf of western Canada and suffering from this discriminatory policy that has prevailed in this country, say that because of this attitude there is more of an attitude in western Canada than there has ever been since I can remember against continuing as part of confederation. That is my own finding in the matter.

Hon. Mr. HANSON: What is that again, Mr. Tucker?

Mr. TUCKER: I say there is more of an attitude to-day than ever I can remember against continuing as part of confederation because of the feeling that the central part of Canada is favoured in monetary, fiscal and tariff policies at the expense of the extremities in western Canada and the maritimes.

Mr. FRASER (*Northumberland*): That is just downright stupidity.

Mr. TUCKER: Well, naturally—

Mr. McGEER: There is no stupidity about it.

Mr. FRASER (*Northumberland*): It is stupidity.

The CHAIRMAN: Order, please. That is hardly parliamentary language.

Hon. Mr. HANSON: Will you allow me a question?

Mr. FRASER (*Northumberland*): Do you want me to withdraw?

Mr. McGEER: Yes.

The CHAIRMAN: I think it should be withdrawn.

Mr. McGEER: That kind of thing is the kind of thing that we have been suffering from all our life in western Canada.

Hon. Mr. HANSON: I have suffered from you on the same ground. However, let us keep that off the record and I will ask a question.

Mr. FRASER (*Northumberland*): If it is your ruling, Mr. Chairman.

Hon. Mr. HANSON: Down in the maritime provinces—

Mr. McGEER: Just a minute, Mr. Chairman. There is a matter being dealt with now, whether that is going to be withdrawn or not.

The CHAIRMAN: Mr. Fraser is going to withdraw it.

Mr. TUCKER: Mr. Chairman, I do not care whether he withdraws it or not. I take that remark as a reflection—

The CHAIRMAN: Just a minute. Mr. Fraser, you withdraw the statement?

Mr. FRASER (*Northumberland*): Mr. Chairman, if it is your ruling, I will withdraw; but I still think it.

Mr. TUCKER: Mr. Chairman—

The CHAIRMAN: I think probably that is your right.

Mr. TUCKER: I do not care whether Mr. Fraser withdraws it or not.

Mr. FRASER (*Northumberland*): Neither do I.

Mr. TUCKER: It is a reflection on the thinking of the people of western Canada and the maritimes as well. It is not good enough for the people who benefited by these policies in the central part of Canada to say to those of us from the other parts of Canada that we are taking a stupid attitude. That will not solve the problem. It is that very attitude, Mr. Chairman, that is building up the sentiment that I have just referred to.

Mr. FRASER (*Northumberland*): But you create the attitude.

Mr. TUCKER: No, Mr. Chairman. That is one thing that I disagree with. If there has been anybody, I think, on this committee who can say that he has been a devoted supporter of Canada, as a nation, I think I can claim to be one of them. I have upheld Canada as a nation in every way I could all my life—in every way, shape, form and manner. I regret that growing attitude, but I say to my fellow Canadians in the central part of Canada that the way to stop that growing attitude is not to say it is stupid. It is to realize that good honest people, a good proportion of whom came from Ontario, as my own father did, did not by moving out west suddenly become stupid.

Mr. FRASER (*Northumberland*): They became contaminated.

The CHAIRMAN: Order, please.

Mr. TUCKER: That is my attitude to that remark. I think it is most unfortunate that when I am stating that the tariff policy of this country has discriminated against western Canada, it should be stated that it is a stupid remark.

The CHAIRMAN: Well—

MR. TUCKER: Where have we got when I hear that from fellow Liberal members of parliament?

HON. MR. HANSON: It was not in respect of tariff.

MR. TUCKER: I say in all our policies of government, fiscal, tariff, monetary and others. Is it to be suggested, Mr. Chairman, that the central part of Canada which has insisted on a tariff policy that benefits itself, has suddenly become self-sacrificing and altruistic in all other policies? I submit to you, Mr. Chairman, that our only protection in western Canada—the only protection of the person who wants a small loan, the only protection of the farmer, not only in western Canada but in the central part of Canada, that he will get the consideration this committee wants him to get, that this government wants him to get—is to see to it that the banks are made responsible to a committee like this in each new parliament. When it is admitted, Mr. Chairman, that the banks are fulfilling this most important function of government, I do not see how any Liberal, in the light of the long struggle of Liberalism for control over these matters by the people and the representatives of the people—not by the House of Lords or the Senate but by the House of Commons—can find any fault with the submission that I make.

HON. MR. HANSON: Will you allow me to ask a question, Mr. Tucker?

MR. TUCKER: Yes, Mr. Hanson.

HON. MR. HANSON: It arises from your statement that there was a feeling in your part of the country, for the reasons indicated, that it should withdraw from confederation. I recall that in 1923, I think it was, an agitation known as the maritime rights' agitation arose in the maritime provinces, principally in Nova Scotia, against conditions then presently existing. Three hundred men from the maritime provinces met the government of this country, headed by the gentleman who is now Prime Minister and presented their claims, and added to it a threat of secession. As a humble member of parliament of that day, I listened; and I recall very vividly Mr. King stating to the spokesman at that time, "Well, if you secede from confederation, where are you going?" That pricked the bubble. Where are you going if you get out of confederation?

MR. McGEER: You do not need to worry about where we are going in the west. We are not like the maritimes.

HON. MR. HANSON: I am asking the question, where are you going?

MR. TUCKER: Mr. Chairman, when I said that feeling was growing, I was doing my duty as a member of this House of Commons in saying what I find to be the case. As I said, I deplore that growing sentiment. I regret it. I have been for over four years of my life in the service of Canada during the last war and this one. I hope with all my heart that Canada will be preserved as a great and united nation. I deplore that sentiment, but there is no use getting angry with people when they find that there is dissatisfaction. The thing to do is to meet their grievances. If that attitude had been taken for example to our American cousins before 1776 at the time that they had grievances instead of condemning them and saying they were stupid and wrong, if their grievances had been met, there would not have been the trouble that finally developed. There were people who talked at that time, just as my friend Mr. Hanson talks, about these colonies off by themselves in the new world; where would they go; the Indians would kill them all, the French would get control of them. All those arguments were used instead of getting down to the business of seeing what their grievances were and what could be done about them.

MR. FRASER (*Northumberland, Ont.*): The reason is that you have been given too much.

Mr. CLEAVER: I hope you will not take offence when I ask you what is your grievance, I ask you now what is your grievance with regard to the present Bank Act? You have told the committee that you know of instances where the banks have declined to extend credit to establish industries which should have been established in western Canada instead of being established in central Canada. And now, I take it you are falling short of your responsibility if you do not give this committee, not a future committee but this committee, the particulars and tell us your grievances and let us analyse them.

Mr. TUCKER: I really thought I had covered a great many of them.

Mr. CLEAVER: I have yet to hear the name of one company or one instance where any of our banks improperly declined to extend credit to a western industry.

Mr. TUCKER: In regard to that, Mr. Chairman, that is not only true of western Canada, it is true of the maritimes; when the banks in the maritimes had their headquarters down there I think—and I spent some time recently in the maritimes stationed there—there certainly is the feeling (of course, perhaps the people are all wrong) that when they lost their own banks they lost a sympathetic feeling when they needed credit in order to carry on the various industries and so on; in other words, the people in the central part of Canada were inclined to be ready to provide credit in order to promote industries where they had the feeling that those industries belonged.

Mr. CLEAVER: Do I understand your complaint to be not as already mentioned, but your complaint is that you have not the head office of a bank out there; is that it?

Mr. TUCKER: No. I am making this claim: I claim the right as a representative of the people in the House of Commons to have the right that the banks in carrying on this important arm of the government should have to come before each House of Commons or a committee of each House of Commons, and answer any complaints the people have to make in regard to failure to carry out the will of the government of the day and the will of parliament or the House of Commons as it reflects the will of the people. There is no question about it that when this election is held there are going to be complaints against the way the banking system has carried on during the last ten years; for example, in 1935—

Mr. McGEER: It is going to be one of the big issues at the next election.

Mr. TUCKER: We had the social credit party elected in our province partly on the way the banking system was administering credit.

Hon. Mr. HANSON: What you are saying is that the banks do not give credit.

Mr. TUCKER: I am not saying that great progress has not been made during the last ten years; and I think there has been greater progress made during the last five years than in the previous twenty years—

Mr. McGEER: Than in the last sixty years.

Mr. TUCKER: —and I think it is a very important thing that this question of the revision of the Bank Act has come up in the year 1944; but I also have in mind this, that the next ten years is going to be one of the most crucial periods in the whole history of our country.

Mr. FRASER (*Northumberland*): That is why we should renew the charters for ten years.

Mr. TUCKER: No, I disagree about that. This argument about stability—I do not see the banks being shaken to their foundations by reason of their having to come before this committee. I think they should be in a position to earn and have the confidence of the people rather than being in a

position of being able to continue without it. That is the only way in which parliament retains the sympathy and confidence of the people. If parliament did not have to go back to them more often than every ten years I submit that it would lose touch with the people and the people would lose confidence in it. And I suggest that is one of the weaknesses of the present system with the banks, that they are not responsible in the discharge of their duties continuously enough to the representatives of the people; and with our new attitude towards these things, Mr. Chairman; our attitude towards the Bank of Canada, our attitude towards this whole function of money and creation of credit; the realization that the banks do create 90 per cent of the money of the country; surely it cannot be said that they should not be put in a better position than the government itself. The government itself in administering the affairs of the country must account to parliament once each year, to the House of Commons, and must satisfy a majority of the House of Commons in order to be able to continue. Is it to be said that the banking fraternity is superior to the government in not having to be responsible at least once in each parliament to the elected representatives of the people?

Mr. FRASER (*Northumberland*): That is not an argument.

Mr. TUCKER: Well, it may not be an argument to my hon. friend.

Mr. FRASER: It may sound to you like an argument.

Mr. TUCKER: I am sorry it does not appeal to you. It appeals to me in my humble opinion as a fair argument; and I am putting this before the committee, before the minister, not in any spirit of criticism; because he knows and the members of the committee know that I have been quite outspoken in saying that this government has managed the financing of this war in what I think is a most excellent way, an outstanding way, and I think I may go so far as to say probably as good as any in the world, if not better. I think that during this period of the war the banks have done a good job. I think the setting up of the Bank of Canada and the handling of the Bank of Canada has been a most excellent job. I think the results accomplished to bring down the rate of interest that the government pays on its borrowings and in bringing down the rate of interest which private borrowers have to pay is a most splendid thing. But all of that does not detract from my argument that in this matter the banks are not more important than the government itself.

Mr. FRASER: Then what are you kicking about with that record which you have just placed before the committee?

Mr. TUCKER: I am kicking in this way: we to-day are asking the banks, having confided to them the right to create 90 per cent of our money and being about to ask them on behalf of the government to handle the whole intermediate farm loan situation and to handle a great part of the small loan situation—we are asking them to deal fairly with one part of the country as well as another in the reconstruction period. They should be made responsible to the elected representatives of the people in the discharge of these important public functions.

Mr. FRASER: But you have just admitted that they have done a wonderful job and under exceptionally trying conditions.

Mr. TUCKER: But they did not do such a good job from 1930 to 1935.

Mr. FRASER: Oh well, you admitted that they had made wonderful progress.

Mr. PERLEY: Owing to the fact that we had the Bank of Canada.

Mr. TUCKER: But unless we retain control of the banks through the Bank of Canada we have not complete control; the Bank of Canada cannot do everything. I well remember when my friends of the Conservative party established the Bank of Canada, they set up the Bank of Canada superior to

the government of the day, the government could not overrule a decision of the governor of the bank; then it was suggested when the Liberals came into power in 1935—

An Hon. MEMBER: 1936.

Hon. Mr. ILSLEY: No, 1935:

Mr. TUCKER: —that the governor of the bank should be subject to the will of the people as expressed by the government of the day based on a majority in the House of Commons.

Mr. FRASER: To-day it is controlled by the Bank of Canada and the Minister of Finance. It has been well set out in this committee.

Mr. TUCKER: Yes, through the Bank of Canada. I say, let us put the whole important matter of continuous control into the hands of the elected representatives of the people, the control of the whole of our banking system; not only part of it.

Mr. FRASER: Are you advocating C.C.F. policies?

Mr. TUCKER: No, I am not.

Mr. FRASER: I just wanted to be clear on it.

Mr. TUCKER: I am just trying to tell you what is happening throughout the country; I hope the minister will believe me when I say that it appears to me that the greatest argument in favour of the nationalization of the banking system at the present time is that the banks can carry on regardless of the will of the people, that all they have to consider is what is in the best interests of their shareholders. Now, if we as a Liberal party—I am speaking now to the minister in this matter and I am speaking as a Liberal member of this committee and of the House of Commons—take this forward step now and say to the banks that in the handling of these important public functions they are going to be responsible to the representatives of the people we will have vindicated our control over the affairs of banking and monetary affairs of this country which is in keeping with the Liberal fights in such matters down through past generations. I know that those fights have been opposed just the way this is, but I do suggest most sincerely that unless you can satisfy the people that their representatives are going to have the right in each parliament to survey what has been done, air their grievances in such a way that those grievances will be listened to and not be just so many words, then you are going to have trouble. You are going to have the system changed.

When a government of past times in England before the advent of responsible government was not running the affairs of the nation in accordance with the will of the people there was the right to make a complaint but there was no right to carry through that complaint on the part of the representatives of the people to make their will prevail. We will suppose that in this election there will be a great issue on the way the banks have handled their credit policy in different parts of this country, perhaps in all of this country, and that a House of Commons is elected with certain ideas in mind which it wants to carry through into the administration of the banking system, and it becomes clear that the will of the House of Commons cannot prevail because we have put them above parliament, above the House of Commons for ten years, and beyond their control. It will lead to an irresistible demand that the banks be taken over lock, stock and barrel. You are going to have a demand made that their shares be bought by a majority interest as the only way of getting control of the institutions.

Mr. FRASER (*Northumberland*): What is your quarrel with the banking system as at present constituted?

Mr. TUCKER: In the first place I do not have to have a quarrel with the banking system at the present moment to say that the banking system should be responsible to the representatives of the people just the same as any arm of government.

Mr. FRASER (*Northumberland*): It is.

Mr. CLEAVER: Why do you think the Senate would fly in the face of public opinion?

The CHAIRMAN: May I just suggest that Mr. Tucker not be invited to repeat his former statements.

Mr. TUCKER: With all deference I do not think I am being invited to repeat former statements. The House of Commons has insisted on its right, as has the House of Commons in England, to pass budgets without amendment by the Senate or House of Lords. When they insisted on that right were they suspecting the Senate or the House of Lords?

Mr. CLEAVER: You think that the House of Commons should have the right to amend the Bank Act without the approval or consent of the Senate?

Mr. TUCKER: No, I am saying this; I thought it should be clear—I did not take it step by step—that if we pass this Act we cannot change it without the consent of the Senate.

Mr. CLEAVER: What right have we to assume in advance that the Senate will not consent?

Mr. TUCKER: If we pass the Act the next House of Commons may be 75 or 80 per cent in favour of some changes in it, and if the Senate does not concur there is nothing they can do about it. I have been in this House when we wanted to re-extend the application of the Farmers' Creditors Arrangement Act to Manitoba and on three occasions the House of Commons passed an Act unanimously on one occasion and the Senate refused to pass it. They therefore have done it before during the short time I have been here. I happen to have had the privilege once of being a representative of the House of Commons to meet the representatives of the Senate to try and persuade them to meet our wishes in the matter and they did not meet them. Having had that experience no person can tell me that we can assume that the Senate is going to fall in line with the will of the House of Commons.

Mr. BLAIR: On money matters.

Mr. TUCKER: On any matter, and surely on money matters the House of Commons should vindicate its control over those matters. There is a great principle at stake here. Now it has come up the importance of this question should be recognized by our government. Is the Commons going to retain control or is it not? It is on that basis I am taking my stand. I do not want to labour the point. I do not want to take up too much time, but on that basis I suggest that these charters should be renewed in such a way as to be sure they will come before the next duly elected parliament of this country. I support the amendment of Mr. Perley for that reason, that in the light of what has been stated by our Prime Minister there is almost sure to be another parliament two years from now. I suggest that in order to keep control of that matter in the hands of the representatives of the people that these charters should only be renewed for two years. Then if it is found that the banks are fulfilling all that is expected of them by the government in the way of extending intermediate loans to farmers, giving a reasonably fair deal to all parts of the country, fully co-operating in the great reconstruction program that will be necessary, and in every way doing their full share, the parliament of that day, including the House of Commons, can extend the charters for such a period as they deem fit. They can extend them as they wish to the next parliament, or they may find that the banks are not doing their part, are not

co-operating, and then they can take such other steps as may be necessary under the circumstances. That is why, Mr. Chairman, I am supporting the amendment of Mr. Perley. It is not because I find any particular fault with what has happened during the last four or nine years. It is because I think a principle is at stake and it is time that we followed a certain principle in handling this matter.

Hon. Mr. HANSON: Mr. Chairman—

The CHAIRMAN: Mr. Fraser has asked for the floor.

Hon. Mr. HANSON: Mr. Fraser is good enough to give way to me for a few minutes. The remarks which I propose to make this afternoon will, I hope, be pertinent to the amendment that is before the chair. Before I deal with that, however, may I be pardoned if I make some reference to certain of the contentions made by the last speaker. Some of them are important and some are not. I regarded with a good deal of concern the implied threat to the stability of confederation contained in the hon. gentleman's remarks.

Mr. TUCKER: I rise to a point of order. I have already explained I was making no threat. I was just reporting the situation which it seemed to me was beginning to prevail.

Hon. Mr. HANSON: The implied attitude of his people in the west, and I deplore that above everything else because God knows this country is disunited enough now over one great phase of national effort, and it is to be hoped that it will not be disunited over mere fiscal or monetary policies. Reference was made to his inquiries made in the maritime provinces with respect to banks. That is not important but I should like to point out that in the old days many banks were established under private enterprise in the maritime provinces. A great many small communities had their own commercial banks. Those banks were for the most part well managed but unfortunately there were some that were not well managed and they went the way of all commercial undertakings that are not well managed.

Mr. KINLEY: Was it not also due to the general trade of the world at the time?

Hon. Mr. HANSON: I think they were all contributing factors. I have in mind a bank in Yarmouth where the entire assets of the bank were lost and it had to fold up. I recall the history of the People's Bank in New Brunswick which was a well established little bank in Fredericton, conservatively and properly managed, serving the community with great benefit to the community for a long period of time, but due to the change of accounts in the community the bank found in certain seasons of the year that it did not have the resources from its deposits and its paid-up capital to serve the business community's requirements; and at other periods, due to the seasonal nature of the lumber business which was the chief factor in that community, they found this multiplicity of assets which they could not be expected to use.

Mr. KINLEY: Do not forget the wooden shipbuilding industry.

Hon. Mr. HANSON: In the changing character of business. The result was that one by one the directors of this institution—I was associated even as a young man with the Peoples' Bank of New Brunswick—came to the conclusion that they could not maintain their position effectively, giving the service to the business community that was required because of the deficiency of assets, and I suppose an attractive offer—I am sure it was—was made by the Bank of Montreal which took over the affairs of that bank, and I am bound to say that this and the other banks, all of which are represented in that community, have served the business community fairly, and I know of no occasion—and I am bound to say I have an intimate association with three of those banks and have recommended many clients to the banks—I know of no occasion where a legitimate applicant for credit has ever been absolutely turned down.

I think the history of banking in the city of Fredericton—I speak of that situation because I know it best—will show that the legitimate requirements not only of the business community but of the farming community, having regard to all the elements and the risks of business, have always been legitimately taken care of. I know to-day the efficiency with which two or three of those banks—and I am speaking only of them—carried on. Any reputable farmer can go in and get a moderate-sized loan on his own name without any other security. And now, in Fredericton the rate for unsecured loans is 6 per cent, and if a man is a really good risk he gets it for 5 per cent.

Having said that may I advert for a moment to the other question which has been raised by the member for Rosthern. He takes the position that the commercial banks of this country are an arm of government. Fundamentally I disagree with him in that respect. If he had applied that term to the Bank of Canada, the central bank, I think there would be solid basis for the affirmation which he makes, but I do not follow him when he says that the banking system is an arm of government; rather do I describe it as being an arm of the commercial world.

MR. TUCKER: Would the hon. member permit a question?

HON. MR. HANSON: Yes.

MR. TUCKER: Would you not suggest that the issuing of 90 per cent of the effective money of the country was definitely a function of government and, therefore, the institution that did it was an arm of government?

HON. MR. HANSON: No, I do not think it is an arm of government; I think it is merely an agency of the community regulated by the government as no other institution in the whole of this Dominion of Canada is regulated.

And then he adverted to the cold constitutional position with respect to powers of government and parliament in relation to fiscal and monetary control. Of course, parliament has control of fiscal and monetary affairs. This was stated in express terms in the constitution. That position has never been taken away from the powers vested under the British North America Act and is still in full force and effect and intact. It may be that in days gone by certain of those powers have been delegated, but we still have control over taxes, we still have control over all fiscal and tariff policies, and we have control, and effective control, over the banks of this country. I think the whole basis of the complaint of the hon. member against the banks is this, that in days gone by, and perhaps on this present occasion, he complains that the banks have not given enough credit to individuals. Now, I admitted one that the banks are the retailers of credit; by and large they are the greatest retailers of credit, although there are other forms of credit. I suggest that they are in no different position from the wholesaler who extends credit. There is a vital element that has to be taken into account by either the bankers or wholesalers and that is the element of risk which can never be long absent in considering any commercial problem, and that element of risk in all the argument we have heard advanced to-day is entirely disregarded by those who are advocating a change in the monetary system of the country.

Coming down now to the question of the proposed amendment which would limit the extension of the charters for a period of two years, there is one ground advocated by the hon. member for Qu'Appelle, that in the meantime there might be an investigation of the whole system; and there is the ground advocated by the hon. member for Rosthern that a new parliament will shortly be elected and that we should leave to them the function of investigating the system. I think I have correctly stated the two systems: one, that of Mr. Perley that a commission of some sort should be set up to investigate the system; and the other by the member for Rosthern that the new House of Commons or a committee of the new House of Commons should investigate the system.

May I recall to you certain historical facts. First of all there is the fact that the banks of this country are joint stock companies, that in some cases they were set up as they are in the old company by royal charter or by the provision of some law passed by parliament in order that they might operate just as any other commercial institutions operate under the laws governing the issuance of those charters. In 1871 parliament passed legislation which has continued down in various forms from time to time to the present under which there was a periodical review of the business of banking in so far as it affected commercial life in the country, and in its relation to the body politic and to public wellbeing in its relation to government. Now, I recall four different occasions in my public career in which this subject matter of the bank has been under review, and there was a fifth occasion to which I may allude later. In 1923 there was a decennial revision of the Bank Act under the leadership of one of Canada's great finance ministers, Mr. Fielding. That was a period of time when we had in parliament a new influx of public thought through the organization known as the United Farmers or the Progressive Party. The position then was thoroughly threshed out and parliament gave its imprimatur to the continuation of the present system. True, there were grievances. True, there appeared to be inequalities. One by one I do suggest that, over a period of twenty odd years, those grievances and those inequalities have been ironed out. I do suggest that at the present time western Canada has no great cause for complaint against the commercial banking system of this country. I think that a great deal has been done for western Canada by the rest of Canada. I have never raised my voice, either by way of reproach or suggestion, that too much has been done for the western country, and I will tell you why. A country that in a good year could produce a billion dollars worth of new wealth, when it met with adversity was a country that, in my honest belief, was worthy of help and worthy of saving. I certainly know that was the attitude of Mr. Bennett when he was Prime Minister. I do not think it can be said with any degree of consistency or truth that the hand of eastern Canada has been raised against the west. On the contrary, I do suggest that the west might have perished in the times of drought if it had not been for the aid extended to it by eastern Canada; and that includes the whole of the east, although I am bound to suggest, too, that the great province of Ontario—which I have always looked upon as the backbone of confederation—extended the greatest help to western Canada in days gone by. I pay that tribute to that great province, and I think it is entitled to have that tribute paid to it. So I do suggest with regard to western Canada, while it may have had grievances in the past, and undoubtedly there was some foundation for the view held in days gone by that there was some discrimination as between east and west, that position has been righted and that to-day they are in effect on a parity with the rest of the country.

MR. GRAHAM: You are speaking of banking practice?

HON. MR. HANSON: I am speaking of banking practice.

MR. GRAHAM: You are not going into the wide field of tariffs?

HON. MR. HANSON: I do suggest this, that one of the reasons why there was discrimination, if you can call it discrimination, in days gone by was that very risk to which I have alluded, that in the opinion of those who were the guardians of the people's pockets, there was a greater element of risk in loaning to a western farmer than there was in loaning to an eastern farmer or a maritime farmer or any other class you might mention, where there is a variegated economy such as we find in the farms of eastern Canada, not depending so much—as was the case, and I hope will not continue to be the case in western Canada—on one crop.

Having said that and having diverted for a moment, may I come back to the proposition that is before the chair, namely that the charters of these banks shall be renewed only for two years. As I started out to say, four times in my own history has this whole position been investigated and investigated, I suggest, with great care.

Three times this thing was heard by a committee of the elected representatives of the people, and the fourth time by a great Royal Commission. In 1933 under an order in council passed by the government of that day, submission was made to the privy council, "that it is desirable that the approaching periodical revision of the Bank Act which will precede the enactment of a measure to continue the charters of the existing banks, to which said Act applies, which expire on July 1, 1934, shall be based on a complete and detailed examination of the provisions of said Act and of the functions and operations thereunder of the banking system thereby established."

And now that was a very wide reference. May I call attention to the first paragraph. For instance, it was held by Lord MacMillan, who is recognized I think as a high judiciary authority. I had the honour of meeting him and hearing him speak both at that time and since; and I think that the government of the day are to be congratulated for getting a man of his outstanding talent and calibre to head that commission. In addition to him there was Sir Charles Stuart Addis, a financier from the city of London; there was Sir William Thomas White, who was a man of very substantial parts in this country, who knew Canada—he may at times have made errors, but who would suggest that none of us do; and there was a representative of western Canada in the person of John Edward Brownlee, whom I believe thoroughly represented western Canada.

Mr. CLEAVER: Will you tell me this; did this commission make its inquiry in point of time after these three incidents to which Mr. Perley referred had transpired?

Hon. Mr. HANSON: I am not going to get into a discussion of that. I have my own opinion about the matter referred to—I think there may have been a mistake made at that time but I do not want to be drawn into a discussion of that. Oh, yes, it is quite true this royal commission sat after all the incidents to which Mr. Perley referred had transpired.

Mr. PERLEY: And that royal commission made its report on what it discovered in respect to the situation which I have covered, and an outstanding result of their report was the eventual setting up of the Bank of Canada.

Hon. Mr. HANSON: I said, a situation arose and I did not want to be diverted. I hope that situation will never arise again. It was a difficult time, as everybody knows; and God knows it was difficult for anybody who had anything to do with it. And I always thought that the country was to be congratulated that it had, no matter what his errors and no matter what his weaknesses may have been—I have always thought that this country was to be congratulated that it had at the head of affairs a man of the strength of character and knowledge of conditions in western Canada that Mr. Brownlee had. I think the whole country would agree with that, if a non-partisan vote were to be taken. But I do not want at the last moment to interject anything in the nature of partisanship into this debate, and I regret that something of that character has come up. Mr. Brownlee, I suggest, was as truly representative of western Canada as any person who could be found within that community. And a fourth member of that commission was Mr. Beaudry Leman who is now president of the Banque Canadian Nationale, representing I presume the bankers of the country. They made certain conclusions, not only with respect to the first term of reference which I have already read, but they were

asked to make conclusions with reference to the question of including a study of the facilities now accorded by the Finance Act which was still in existence before the Bank of Canada Act came into effect:—

and a careful consideration of the advisability of establishing in Canada a central banking institution, and, if so established, of the relation of such central banking institution to existing banks and its proper authority and function in the operation of the banking system of Canada.

If anybody can imagine any wider directions for a royal commission with respect to that subject matter I should like to know what they are. Then they went further than that. It directed this commission:

That such examination should also include a study of the entire monetary system of Canada, including credit, currency and coinage, particularly in their relation to commodity price movements and fluctuations in international exchange.

Particularly it directed them to examine into the provisions and working of the Bank Act, the Dominion Notes Act, the Finance Act and the Currency Act, and the advisability of establishing a central banking institution. That commission travelled from one end of the country to the other and it heard every possible phase of public opinion that could be brought before it including my friend from Vancouver-Burrard. It made a report which is a historical document. How could we, sitting here as members of the House of Commons without the expert information that those men had, sit in review on the report of a commission of that character? I will not be very much longer and then Mr. Fraser will have a chance.

Mr. GRAHAM: May I interrupt? There is no intention of taking the vote tonight, is there? I have got to go. I missed the vote at noon by thinking we would adjourn at 1 o'clock.

Hon. Mr. HANSON: I will curtail my remarks. You are not proposing to take the vote?

The CHAIRMAN: I should like to take the vote if we can.

Mr. GRAHAM: I want to say something.

Hon. Mr. HANSON: I will quit if you can get a vote on this thing.

The CHAIRMAN: Are we ready to vote on the matter?

Mr. PERLEY: I think there is something more to be said.

Mr. MACDONALD (*Brantford*): Let us have a vote.

The CHAIRMAN: Mr. Hanson is ready to take a vote.

Hon. Mr. HANSON: I want to make an allegation against the proposal for a two years renewal of the charters. I say that there is no class of company in the world that is so cabined, cribbed and confined as the commercial banks of Canada. There is not anything comparable to it in the United States or Great Britain. What these people have gone through is perhaps five inquisitions in the last twenty years. They want to get on with the business of the country. I believe they are patriotic citizens who are desirous of doing their full duty by the people of this country having regard to the obligations which they have in regard to their shareholders and their depositors. I might lay great emphasis on that, but in the interests of taking this vote I am going to quit.

The CHAIRMAN: Are we ready to vote?

Mr. PERLEY: I want to answer one or two of the things that Mr. Hanson has said.

Mr. GRAHAM: I feel that I would like to say something on this.

The CHAIRMAN: Then we will have to adjourn until tomorrow morning. Mr. Hanson will be given the floor.

Hon. Mr. HANSON: If I may; thank you.

Mr. FRASER (*Northumberland*): Are we going to adjourn until tomorrow morning?

The CHAIRMAN: Tomorrow morning at 11.30.

The committee adjourned at 6 o'clock p.m. to meet again Thursday, July 27, 1944, at 11.30 o'clock a.m.

July 27, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock, a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Order, gentlemen. We are on clause 5. Mr. Hanson.

Hon. Mr. HANSON: Mr. Chairman and gentlemen, when we took recess yesterday afternoon I had pretty well completed the statement I had desired to make. I would have been content to have stopped when I did stop had there been a hope of getting a vote and getting this bill through, because I think it is apparent to everybody that there has been far too much delay in the consideration and passing of this measure which was the duty of this committee to do under its terms of reference.

I have been referring to the proposal for the extension of the charters for ten years, and I had attempted briefly and perhaps inadequately to sketch the considerations that have been given to the Canadian banking system over the period of my own personal experience, and I had alluded to the report of 1923. On that occasion I think it will be recalled that certain provisions of the Act were substantially strengthened in the way of auditing the shareholders' inspection. I omitted to state that in 1924 that as a result of the Home Bank's failure the then Minister of Finance in the exercise of the undoubted right which the government possesses under constitution brought in a measure for the government inspection of banks, and on that occasion a bill was introduced in amendment of the act; which shows that should it be a matter of government policy at any given time there is no reason in the world why legislation may not be introduced by the government to strengthen the position of the banks. It is open to a private member at any time by resolution to call attention to grievances in respect of weaknesses in the banking laws of this country in any normal session of parliament and I venture to suggest that no government, if a resolution of parliament is passed directing the House of Commons and the government to bring in remedial legislation, would ever think for a moment of ignoring such a resolution.

I now desire to pass on as rapidly as possible to the events of the session of 1934. May I say in passing in reference to the statements made by my friend Mr. Perley, and I regret having to say this, I have no recollection of Mr. Bennett stating at any time under any circumstances or under any conditions that he would nationalize the banks of this country. Whatever he may have said in private conversation, perhaps in a moment of a heat, I think Mr. Bennett is the last man in the world to consider a policy of nationalizing the banks of this country, knowing him as well as I do. I do not say that he may not have said on some private occasion something in the nature of what Mr. Perley has suggested; but I do say, had it been a matter of government policy, I would have been one of the first to hear about it.

Mr. McGEER: What about the demand of the banks for higher interest rates and higher commissions?

Hon. Mr. HANSON: I have no doubt there were bargains.

Mr. PERLEY: That is where the threat was made, right there.

Hon. Mr. HANSON: I have no doubt there was bargaining; I think even if there is a point to be made out of it, it is not a matter of any importance at all,

that the banks should be asked to give their side of the question; although as a matter of fact it does seem to me to have no importance in connection with this proposed amendment of ours at all. We all want to get what we can in the matter of a bargain. If a loan was to be floated by the government as has been suggested through the operation of the chartered banks no doubt there would be bargaining; but the result of the government's request to the banks, as the history of this country shows, was that they yielded to the advice of the administration and the loans were put out in that way. I do not think that is any argument against the suggested extension of the charter for a period of ten years as provided for in this bill, and I am going to say nothing more about that.

Mr. McGEER: Was there, as Mr. Perley has said, at that time a demand on the part of the banks for a higher rate of interest and a higher commission from the government?

Hon. Mr. HANSON: I can only say that I have never heard of it and I do not know; and if I cannot speak with any degree of authority or knowledge, I think that is all I should say.

Mr. McGEER: Mr. Perley speaks with very definite memory.

Hon. Mr. HANSON: He probably does, but what in the world has that to do with the bank charters?

Mr. PERLEY: I do not use that as an argument.

Hon. Mr. HANSON: Then I suggest that it should not have been mentioned in connection with this proposed amendment because it is not germane to the subject matter before the committee, and I do not want to carry on with that discussion any further. I am content to drop it. It should never have been raised.

In 1934 there was an extensive examination of finance and the operations of the whole general set-up of the chartered banks of Canada. That followed, as I have said, the report of the Macmillan commission which was the set-up under order in council in 1933 and which was before the banking committee at that time. Certain recommendations were made. I am sure that every member of this committee has a copy of the Macmillan report and has studied the recommendations that were contained therein. I just desire at this moment to refer to the recommendations. If the hon. gentlemen would turn to paragraph 201 of the Macmillan report, which is to be found on page 61 in chapter V:—

It has been manifest, from what we have previously written, and indeed from much of the information afforded us in the course of our hearings, that insofar as the ordinary functions of banking are concerned, the Canadian banks give admirable evidence of security, efficiency and convenience. In a time of universal economic difficulty, the Canadian banks have stood firm and have continued to render to the people of the dominion the same high quality and the same wide variety of services as in the past.

That is a recommendation and the unanimous recommendation of the MacMillan report. We are living to-day in a time of great economic difficulty.

Mr. McGEER: Why not put in the qualification of that statement which is contained in paragraph 202?

Hon. Mr. HANSON: I have no objection to putting that on the record. That is something you can do if you want to.

Mr. McGEER: Why only take a part of the thing?

Hon. Mr. HANSON: That statement is dealt with the best endorsement of the banking system.

Mr. McGEER: Read paragraph 202.

Hon. Mr. HANSON: I will read paragraph 202; I am not afraid to read the whole of it but I would not like to inflict all of it on the Committee:—

It is nevertheless necessary to ask whether there are any functions which a modern banking system may reasonably be expected to perform which either are not performed or are inadequately performed by the existing Canadian system. From this point of view, the observer cannot but be impressed by the absence in Canada of any single banking authority which, while linked by its activities with national finance and commerce, is nevertheless detached by its constitution and the temper of its administration from the ordinary pursuits of commercial banking. If we survey the cardinal monetary problems which face the Canadian people in common with all other peoples to-day, we are immediately confronted with a multitude of difficult and intricate questions. To what extent and through what organizations should the volume of credit and of currency be regulated? On what body should lie the primary responsibility for maintaining the external stability of the country's currency? To what institution may the government of the day most suitably turn for informed and impartial advice on matters of financial policy?

I am glad the hon. member asked me to read that citation, because as a result of the inquiries established in that paragraph they follow along to advocate the establishment of a central reserve bank for the Dominion of Canada.

Mr. McGEER: And the two Canadian bankers on the committee were opposed to it.

The CHAIRMAN: Order, please.

Hon. Mr. HANSON: Will you allow me to proceed? The question has been made here, and it has just been repeated, that the banks at the time—and I suppose that meant all of the banks—were opposed to the establishment of a central bank in Canada. My recollection is that that is not a correct statement. There may have been cases. I think there was one individual case of one bank which opposed the establishment of a central bank, but I have a distinct recollection that the general manager of another Canadian bank, one of the largest Canadian banks, rather welcomed the establishment of a central bank although in his own personal opinion he did not think it was necessary, but he did not take the position of opposing it. When the suggestion was made in parliament by way of the introduction of the bill there was not a single bank in this country that appeared and opposed it, whatever may have been the underlying reason. The Canadian people accepted the recommendation of the Macmillan report that there should be a central banking authority set up for the express purpose, among other things, of doing just what the Macmillan commission asked itself whether it should not be done in view of the evidence which had been adduced before it. We have the Bank of Canada. I know there was criticism at the time that it was a privately owned institution.

Mr. McGEER: Would the hon. gentleman permit a question?

Hon. Mr. HANSON: Yes.

Mr. McGEER: Is it not true that the hon. Sir Thomas White was a representative of the Canadian Bank of Commerce and on the Macmillan Canadian committee as a Canadian banker? Is it not also true that Mr. Beaudry Leman, a former president of the Canadian Bankers' Association, was a representative of the Banque Canadienne Nationale and also on the Macmillan committee as a Canadian banker? Is it not also true that in the Macmillan committee report both of those bankers filed a supplementary report condemning

the idea of establishing a central bank, and was that report of those two bankers representing the Canadian bankers not before parliament when the bill was introduced?

Hon. Mr. HANSON: I affirm without hesitation and without question that both Sir Thomas White and Mr. Beaudry Leman were not there because they were bankers. They were there because they were outstanding citizens of Canada who understood the banking business in this country, but that per se they were not and never were appointed as representatives of the Canadian banks. It is true that they gave expression to certain views which are to be found in the minority report but I deny the statement that they were appointed to that commission as being the representatives of any particular school of financial or monetary thought in this country. They were there because they were outstanding citizens who understood the situation, intelligent men in whom the government of the day had confidence. Further than that I am not prepared to go. I do not think that the history of the Macmillan commission substantiates the view that they were there in a representative capacity any more than say Lord Macmillan himself.

Mr. CLEAVER: And we have the Bank of Canada.

Hon. Mr. HANSON: And we have the Bank of Canada to-day. Whatever their views were with respect to the establishment of a central bank they did not prevail. Criticism was levelled at the administration of the day because they set it up as a private institution. It is merely a matter of historical curiosity at the moment, but there were very sound reasons adduced at that time why it should be a private institution, based on the history of the Bank of England. There was always the fear of political interference in the operations of the bank.

I put to the members of this committee a hypothetical case. If my friend, Mr. Coldwell, is called on to form an administration in this country in the future, whether it be near or far, and if he desires to put into effect his monetary theories, I venture to say that one of the first things he will do is to abolish the existing directorate of the Bank of Canada and set up stooges of his own selection and choice. Otherwise he will never get that institution to function along the lines that he desires to have it function. That is the fear that the Prime Minister of that day had in this country when he set it up as a private institution that would be free from political interference. It is idle to say that government controlled institutions cannot be influenced, never will be influenced.

Let us take the history of the Canadian National railway. It is a matter of history to-day that every time there is a change of administration in the government of Canada there is a change in the administration of the directorate of the Canadian National railway.

Mr. TUCKER: Will the hon. gentleman permit a question?

Hon. Mr. HANSON: Yes.

Mr. TUCKER: Does the hon. gentleman suggest that the will of the people as expressed in the House of Commons should prevail in central banking policy?

Hon. Mr. HANSON: That presupposes the will of the people is always based on certain considerations, justice and right.

Mr. TUCKER: They might be wrong sometimes?

Hon. Mr. HANSON: I suggest they have been wrong in the past. I suggest that the light of reason should prevail.

Mr. TUCKER: Who is going to decide what is right?

Hon. Mr. HANSON: The government of the day must take the responsibility under the constitutional situation as we have it established in this country.

Mr. TUCKER: When you set up the central bank it did not have that power.

Hon. Mr. HANSON: I think we did have that power.

Mr. COLDWELL: Am I to understand from Mr. Hanson that when the government of that day appointed that board they did not consider the political and economic views of the members of that board?

Hon. Mr. HANSON: I am glad you asked that question. The government of the day had nothing whatever to do with the naming of the personnel of the board of directors of the Bank of Canada. That was a problem that confronted them at the time. The government of the day put in the bill that the Governor of the Bank of Canada should be one of the directors and that the Deputy Minister of Finance representing the government should be one of the directors, but the government of the day let their shareholders elect their own directors, and the shareholders selected them from a panel that was established by the Canadian Chamber of Commerce.

Mr. COLDWELL: Who were the shareholders?

Hon. Mr. HANSON: They were scattered here, there, and everywhere. There were members of this House who were shareholders.

Mr. COLDWELL: Who were the Canadian Chamber of Commerce? What views do they represent?

Hon. Mr. HANSON: I should say that they were representative of business in this country, that they represented Canada from one end to the other and the very greatest care was taken that representations should be based on all the national considerations that could be summoned to their assistance, geographic, occupational, business.

Mr. TUCKER: Do they represent the Canadian people better than the Canadian House of Commons?

Mr. COLDWELL: Or the co-operative societies and farmers organizations?

Hon. Mr. HANSON: Of course, co-operatives and farmers organizations are class institutions. You are not going to get me into a bypath in this matter. I am saying that the board of directors of the Bank of Canada set up in 1934, or the spring of 1935, was independent of political considerations. That is the only point I desire to make. I should like to say that the consideration of the appointment of directors after the change from private ownership to public ownership was based on national considerations and not political considerations, and I want to give the present administration full credit for having adopted that policy. I hope it will always be continued. I think that the board of directors of the Bank of Canada to-day is representative of a whole cross-section of the national life of Canada and of every part of Canada. That is the only way you can ever carry on that institution.

Let me conclude as quickly as possible. I apologize for having taken up so much time.

An hon. MEMBER: Hear, hear

Hon. Mr. HANSON: Somebody says "hear, hear". Perhaps I have talked too long.

Mr. McGEER: Not a bit.

Mr. BLACKMORE: Go ahead.

Mr. TUCKER: It is interesting to get the Conservative viewpoint in these matters.

Hon. Mr. HANSON: You will find it is based on reason.

Mr. TUCKER: Based on the idea that you cannot—

Hon. Mr. HANSON: You will find it is based on national considerations and not on partisan considerations.

Mr. TUCKER: —that you cannot trust the people.

Hon. Mr. HANSON: No, I deny that.

Mr. TUCKER: Then, why not let the House of Commons have control?

Hon. Mr. HANSON: You can make that speech afterwards. You can talk here or on the hustings or in the House or anywhere you like.

The CHAIRMAN: Please allow Mr. Hanson to conclude his arguments.

Hon. Mr. HANSON: I would say that the views as expressed are not the views of a political party. They are the views of an individual who has viewed the situation for many years, who has some knowledge of business in this country and some knowledge of the operations of parliamentary institutions. I say that I am in thorough support of the findings of the Macmillan commission because they were based on authentic evidence. I say that the banks of this country have done a reasonably good job for the commerce of the country, and that they should be left alone to continue to do that job in the most trying period of national life of this country. This is no time for rocking the boat and setting up a new financial theory or monetary system in this country when we are fighting the greatest war in history. I would think that our minds would be on Normandy this morning, where the reports are not too good. I would think that our minds—

Mr. TUCKER: Mr. Chairman—

The CHAIRMAN: Order, please.

Mr. TUCKER: I rise to a point of order.

The CHAIRMAN: Yes?

Mr. TUCKER: There is no suggestion, in this amendment that the charters should be renewed for only two years, of setting up a new financial system; and I submit that Mr. Hanson's remarks in that regard are out of order.

The CHAIRMAN: I rule that they are in order.

Mr. TUCKER: Then I appeal against your ruling, Mr. Chairman, because there is no such suggestion—absolutely none—in this amendment, that we are going to set up a new financial system. It is only that the financial system should be made responsible to the House of Commons; and I suggest to you that the remarks are out of order, and if you rule that they are in order I appeal from your ruling.

The CHAIRMAN: Very well, if you want to appeal.

Hon. Mr. HANSON: Mr. Chairman, I submit—

The CHAIRMAN: Just a minute, Mr. Hanson. I may say this to you, Mr. Tucker. When you were arguing, many a time I thought you were not speaking to the point and many a time I allowed you to continue. We have had a large degree of latitude in this committee. You have been away from most of the sessions of the committee. You came back and you repeated and went over ground that we had already covered.

Mr. TUCKER: I object to that.

The CHAIRMAN: Wait a minute, please. We gave you that latitude. If you wish to appeal from my ruling, that is your privilege; but I do suggest that we get on with our job. This is our forty-sixth session, and I do think that Mr. Hanson should be allowed to conclude his argument without further interference.

Mr. TUCKER: All I can say in that regard is this, Mr. Chairman. The suggestion made that I traversed ground that had already been covered is, I suggest, quite incorrect. In this whole committee I do not think I have taken up more than two and a half hours or three hours of the time of the committee; and since I came back from taking part in the Saskatchewan election I have only taken part once at any length in the proceedings, which was yesterday,

and that was the only time. However, in the light of what you say about giving me latitude, I withdraw the suggestion of appeal and bow to your ruling.

Hon. Mr. HANSON: Mr. Chairman, I may say that I do not object to the interruption on the point of order. I have the idea, as a practising lawyer and a hard-hitting lawyer, that it was only intended to divert my argument, and I am quite used to that. I will forgive the honourable gentleman for his interruption.

I have very little more to say. The suggestion is that these men, these banks, these financial institutions which are doing their share in carrying on this tremendous effort that the nation is now engaged in, should in two years' time be brought back here to go over the hot sand again—because they have had it pretty hot, as far as I can see. I suggest that, in the interests of the post-war rehabilitation period in this country, we should strengthen the banking system as was proposed in this bill, and let these gentlemen go home and get on with the work of the nation, not as an arm of government but as an agency absolutely necessary and requisite to the due carrying on of the commerce of this country and for the financing of this country.

I thank this committee for the very patient hearing they have given me.

Mr. COLDWELL: Mr. Chairman, may I just say, as I was brought into this, that I have no objection to Mr. Hanson's placing before the committee the point of view that he has placed before it, and I am very glad indeed that Mr. Tucker withdrew the appeal from the chairman's ruling, because I think there has been a great deal of latitude given. I do not want to say very much except that the committee knows our position. I do not intend to engage in any long repetition of it. I am going to support the motion because of the position that we have always taken. I should like to see the bank charters extended for only one year, but I am going to support the amendment. May I just say this to Mr. Hanson. When he imputes to another political party motives which he himself resents, then I say that I should make it perfectly clear that we believe that the banking institutions of this country should be responsible to the representatives of the people of this country and not to any group of people; and if we ever had the opportunity of appointing a board of directors to manage our Central Bank or our banking institutions, that board of directors would be representative of the various interests in the country and particularly the interests that are not represented now, the people's interests. I see no reason why a board of directors of the Central Bank should not be nominated to the government from the co-operative societies, the labour unions and other people's institutions as well as the other organizations which are now represented. I think that Mr. Hanson—I will not say he did it deliberately—misrepresented the point of view which I and those associated with me hold. We hold that the banks of Canada are institutions that ought to be operated in the interests of the general public instead of in the interests of those who, of course, must under the present economic structure look to the profits of the institutions that they operate and safeguard the interests of their own private shareholders. That is all I want to say, Mr. Chairman.

Mr. PERLEY: Mr. Chairman, may I say a word?

The CHAIRMAN: Mr. Fraser has asked for the floor. I might say that Mr. Fraser gave way yesterday, you will remember, to Mr. Hanson; so it is only fair to allow Mr. Fraser to continue today.

Mr. PERLEY: I just wanted to take a minute or two.

Mr. FRASER (*Northumberland, Ont.*): Mr. Chairman, after what has been stated in this committee during the last couple of days in connection with this amendment which is now before the committee, I should like to take this opportunity to make a few observations based on my own experience and based on the

evidence that has been placed before this committee during the last three months.

I have listened as attentively as possible to the submissions made by my good friends Mr. McGeer, Mr. Slaght, Mr. Blackmore, Mr. Perley and other members of this committee. I should like to say at the outset that we have had the advantage during the last several months of hearing every side of the monetary system and the banking system in this country discussed. Evidence has been brought out pro and con. Reference has been made to the Banking and Commerce Committee of 1934, and we have gone over that and reviewed the progress of the banking system that has been made during the last ten years. But to-day I should just like to place upon the record, as I said a moment ago, my own experience with the chartered banks and my own limited knowledge of the banking system in general. Perhaps I will be permitted, Mr. Chairman, in view of the remarks made by Mr. Tucker and Mr. Perley, to make some reference to my experience with the chartered banks as a farmer. Obviously we must realize that the Canadian banking system is a business. It is neither a jackpot nor a grab-bag in which people can put their hands and forearms any time they like, under any conditions, questionable or otherwise, to procure funds to prosecute their own ideas. The banking system, as I said a minute ago, is a business. As somebody said yesterday, the banks are the retailer of credit. It is the business of the banks to lend money; and while I strongly disagree with the statement made by Mr. Tucker yesterday that the banks create 90 per cent of the money, I do not wish to go into that this morning. But the banks lend money and want to continue the business of lending money to the greatest possible extent in order to earn a profit on the money that they warehouse for other people; and it has been my experience as a farmer, dealing with farmers in at least four provinces of the Dominion of Canada, that the farmers have been given every consideration by the chartered banks.

Mr. BLACKMORE: Since when?

Mr. FRASER (*Northumberland, Ont.*): Always in my experience; I have probably had more experience than my honourable friend has had.

Mr. BLACKMORE: I wonder if you had the right kind.

Mr. FRASER (*Northumberland, Ont.*): I have had the right kind. I have tried to the best of my ability to preface my experience by a foundation of judgment and common sense that would place me in a position to repay the money I borrow from the banks.

The CHAIRMAN: Before going further may I suggest that to-day, and for the rest of the discussion on this bill, we have as little interference as possible; that we allow the members to continue their reasoned arguments; and when Mr. Blackmore comes to speak I am sure we will give him the same consideration that we expect him to give other members.

Mr. BLACKMORE: That is all I ask.

Mr. FRASER (*Northumberland, Ont.*): I do not mind the interference. As a borrower I have always realized that just the minute I have procured money from the bank I must make up my mind to repay the bank that money. They have lent me the depositors' money, trust funds, and any bank would be derelict in its duty and in its conception and understanding of its business if it did not scrutinize most carefully every loan made to a farmer, commercial institution or industry. I repeat, Mr. Chairman, that in my experience in four provinces in the Dominion of Canada—and I lived for over a year in one of the provinces of western Canada—the banks have given consideration to borrowers based on the ability of the borrower to earn sufficient money through his business or farming activities to repay the bank, and anybody, I suggest, who approaches a bank for a loan without being reasonably sure that that loan can be repaid, consistent with the terms on which the money is procured,

is deserving of, and must expect, that that bank will scrutinize that loan, and that the bank in the conduct of its business will make its decision as to whether or not the borrower is deserving of that credit on the basis I have mentioned.

Yesterday Mr. Tucker made a number of statements in connection with western Canada and in connection with banking institutions generally. I heard Mr. Dobson of the Royal Bank—I think it was the day before yesterday—give a resume of the rates that were charged in western Canada to the grain companies on warehouse receipts, and I was tempted at that time to suggest to you, Mr. Chairman, that the banks have been discriminating against central Canada. On the other hand, we in central Canada have no such feeling as that expressed by Mr. Tucker yesterday, in connection with western Canada. We appreciate to the fullest extent the great assets that this dominion has in the three provinces of western Canada; but it seems to me that anybody who suggests disunity or suggests that the feeling was so intense in any part of Canada over the matter of banking that that part of Canada had developed a feeling toward secession from the confederation is certainly being extreme in his submission before a Banking and Commerce Committee.

Mr. TUCKER: Mr. Chairman, on a point of order. I did not suggest there was that feeling on account of banking policy alone; I suggest that with regard to the policy of this country on tariff matters, fiscal matters, monetary matters and all matters of that kind which had conduced to the building up of that feeling.

The CHAIRMAN: Mr. Tucker, I might say that was one of the statements that might have been left out of your remarks, because after all, we are here to deal with the Bank Act and we ought to confine our attention to the Bank Act.

Mr. FRASER (*Northumberland, Ont.*): Now just a word in connection with a further statement made by Mr. Tucker in regard to industry, and I may be called on a point of order in my remarks in this connection. Money naturally flows to the greatest return with the greatest safety. Industry is not established by banks, industry is established by the foresight and initiative of those who conceive that a proper industrial set-up can be located in Edmonton or Calgary or Montreal or Toronto; no bank sets up an industry; but those who perceive or recognize favourable conditions that may exist in any part of Canada, regardless of whether it is western Canada or eastern Canada, will set up that industry based on the accessibility of raw materials, labour conditions, geographic conditions, transportation costs, etc., in connection with all the characteristics that are required, in order to make that industry a success.

Mr. McGEER: Did you ever bump into the steel trust?

Mr. FRASER (*Northumberland, Ont.*): Yes, I have. I have bumped into a lot of trusts.

The CHAIRMAN: Mr. McGeer, please?

Mr. McGEER: He knows something about that.

The CHAIRMAN: I know, but let us allow the members to continue their arguments.

Mr. McGEER: I am perfectly willing.

Mr. FRASER (*Northumberland, Ont.*): So I say, Mr. Chairman, that as far as industry is concerned, banks do not start industries, banks do not make industries possible without the executive of those banks or that bank, as the case may be, deciding in their own wisdom on the practicability of the promotion of that industry in any part of Canada. I can name you numerous gentlemen to-day who would be only too pleased to go into the city of Brandon or the city of Calgary or the city of Moose Jaw and set up an industry if they could decide in their own minds, as business men, that that industry would be prosperous in that particular locality. I suggest, Mr. Chairman, that if they approach with the

proper collateral, and the proper pro rata of individual investment, any one of our banks would be only too pleased to advance funds for the establishment of that industry under the auspices of men who are capable of successfully conducting that industry. I do not think there is any question of that.

Now, Mr. Chairman, another point that was mentioned by Mr. Tucker yesterday and stressed at some length was that the banks were a branch of government, a branch of administration—

Mr. TUCKER: An arm of government.

Mr. FRASER (*Northumberland, Ont.*): An arm of government. Mr. Chairman, I take exception to that statement, except on the ground that I will accept Mr. Tucker's statement if he will include in his submission on that point that mining companies, insurance companies, dairies, steel companies, all companies are children of government.

Mr. TUCKER: They do not create 90 per cent of the purchasing power.

Mr. FRASER (*Northumberland, Ont.*): That, Mr. Tucker, has been covered by the evidence of this committee over the period of the last three months, and it has been abundantly brought out that since the creation of the Bank of Canada, since the inauguration of certain improvements shall I say, certain improvements and amendments—some of them suggested very probably by the hon. member for Vancouver-Burrard (Mr. McGeer)—have made considerable progress in the last ten years; and these inadequacies, shall I say, have been eliminated from our system, and the banks to-day are operating under licence from the government the same as any other organization. But there is one exception; with the exception, Mr. Chairman, that the banks are not only a child of the government—as I said, the other corporations that are incorporated by provincial or federal laws can be set up in that way but the banks of Canada I submit are subject to more rigid control, not only by the Inspector-General of Banks and not only being under the jurisdiction of the Minister of Finance but by this Banking and Commerce Committee and this House of Commons. I do not think it is a proper statement, Mr. Chairman, for anybody to say that once this charter is granted, as has been amply pointed out by Mr. Hanson, that the banks will be able to continue, as you suggested yesterday, Mr. Tucker, without any interference or without any checking. They are continually under the check of the agents and the agencies that I have mentioned; plus the fact that the banking system to-day is over-ridden and blanketed in by the Bank of Canada. So I submit if we are going to deal with the banking organizations in the light of an arm of the government because we issue them a charter every ten years, I submit that all incorporations in the Dominion of Canada could be placed in the same category.

Now, Mr. Chairman, I want just for a minute or two to deal with the functions of the banks, and my personal experience of over forty years with the chartered banks of the Dominion of Canada, and I submit that I have had many years of experience with at least three of the chartered banks in this country. And I want to say to you, Mr. Chairman, as was pointed out in this committee, that the only time I have ever had any argument with any one of those three banks I mentioned it has been brought about by my own stupidity; and when I stop and look for a few moments into a mirror I figure that stupidity and bad luck are twins. And it was only under conditions of that kind, as I said in this committee some weeks ago, perhaps through the fact that the banks loaned too much money and not too little money, that the banks in Canada got us into trouble.

Mr. MAYBANK: That is a bad admission to make; the next time you go in they will use it against you.

Mr. FRASER: They know me too well.

So I submit, Mr. Chairman, that the banks are carrying on the system of loaning money because it is the life blood of their institutions, it is the only way in which they can make profits. There have been a number of statements made in connection with bank rates. I think, Mr. Chairman, every one in this committee will admit that in conjunction or co-operation or at the request of the federal government of this country under the present hon. Minister of Finance, that we have enjoyed a reduction, a very marked reduction, a percentage of anywhere from 20 per cent to 25 per cent, in the interest rates on money throughout this country. Not only that, we have thoroughly enjoyed the reduction in rates, but the Minister of Finance of the day has managed to bring the credit structure down to a 3 per cent basis. We are operating a 3 per cent war. And the minute that basis was set up it was obvious the whole existing structure of the chartered banks of Canada—in Saskatchewan, in Quebec, in Ontario, in the maritimes—the whole existing structure had been and is altered by the effect of the 6 per cent over-riding interest charge that we have been discussing in this committee and it is very questionable in my mind that any discrimination has taken place in any part of Canada. When we realize that the bank has always to consider the risk against the loan; obviously the banker to-day will loan money on a victory bond at 3 or 3½ per cent, but if I go to a banker and ask him for a loan of money on a chicken farm—and I had my experience in growing apples—the banker is going to look at my proposition not with suspicion, but he is going to wonder why I am going into chicken farming, with the result that if he does loan me money it is certainly not going to be on the basis of a victory bond rate. I am only using that illustration to endeavour to the best of my ability to place on record the fact that the banking system is one which must be taken jointly with the paramount realization of the necessity of the repayment of the funds; because those funds, as I said a few moments ago, are not the property of the bank; they are loaned to the bank from the Bank of Canada or from the depositors for the purpose of commercializing deposits in order that money may be used for the development and progress and continuity of Canadian farming and Canadian commerce and Canadian industry. The banks would be derelict in their duty, as I said a moment ago, if they did not at all times keep that red light vividly before them, that red light of the possibility of loss of somebody else's property.

I might say also, Mr. Chairman, in that connection—and I do not wish to take up the time of this committee unduly—I would also like to bring to your attention, to the attention of this committee the great flexibility of our Canadian banking system. I think it can be truthfully said that in no other country of the world do the people enjoy—perhaps I should not use the word “benevolent”—but do the people have the advantages that we have in Canada owing to the flexibility of our banking system. The chartered banks of this country maintain branches from the Atlantic to the Pacific. Money that lies on deposit in Montreal or Toronto can be used to finance the wheat pools of western Canada. Money that is on deposit from the lumber companies of Vancouver can be poured into the assistance of the fishing industry on the east coast or to the apple industry in the province of the hon. the Minister of Finance. It is that flexibility of our banking system, it is that ability of our banks to meet the demands for credit throughout the Dominion of Canada that the stored-up energy and property of all the people of the Dominion of Canada, that makes the system so imperative and which makes continuity of that system so imperative, and which makes it imperative that it should be continued in the most possible way.

Another point, Mr. Chairman, is this; and I submit this to the committee with all due respect and without reflection on any one, but simply because I believe from what I have heard in this committee that what I am about to say is of acknowledged truth and importance; I think, Mr. Chairman, as a member

of this committee that it is most important that we do not permit the feeling to go across Canada, and that we should not permit through the press or otherwise a feeling of suspicion against our banking system to get abroad. There is nothing "funny" about our banking system. There is nothing hidden about our banking system—if somebody is going to say hidden reserves in a moment—but there is nothing hidden about our banking system. Our banking system is a logical and well-managed system managed by people who are experienced in the banking business. And I venture to say that in this room this morning with the representatives of the Canadian chartered banks here, they have spent their lives not as blacksmiths or carpenters or anything of that kind, but as bankers; and as I often have said to them it would perhaps have been better if they did extend their activities into broader fields and not limit it to the banking system quite to the extent that they have done.

Now, Mr. Chairman, interwoven with this amendment, from the remarks made by my good friend, Mr. Perley, has been the suggestion that a commission should be set up to investigate the banking system. May I say without hesitation that personally I am against commissions. Commissions are obnoxious to me for the reason that I have seen too many of them. I believe that commissions have been a very strong agency by which we have divorced responsible government from the people of the Dominion of Canada. They have not only been a strong agency in that connection but they have been most expensive agencies to the taxpayers of the Dominion of Canada. In many, many cases that I can mention, and that you well know, they have been abortive of the purpose for which they were set up. If this committee were to recommend to the House of Commons that a royal commission or any other commission be set up to investigate the banking business of Canada the first thought would be who would be the members of that commission? Obviously you would have to obtain men who understood the banking system. I remember, as every member of this committee does, the Sirois commission which was set up some years ago, a costly commission, but up to the present time personally I have not seen any very material results from the long investigation and inquiry of that commission.

Mr. McGEER: Costing over \$500,000.

Mr. FRASER (*Northumberland, Ont.*): Costing over \$500,000.

Hon. Mr. HANSON: It was kicked in the back.

Mr. FRASER (*Northumberland, Ont.*): I am simply referring to it as a commission. I submit, Mr. Chairman, that the charters of the Canadian banks should be renewed for ten years, not only for the reasons so ably set out by Mr. Hanson but for additional reasons. For instance, if this amendment were to carry will you tell me by the simple method of mathematical deduction how the Canadian chartered banks could go ahead and loan money for over two years? The whole thing would be in a state of flux. The banks would not know whether they were coming or going. They would not know at what minute the government of the day might refuse to renew the charters.

Mr. TUCKER: Have they not been able to make loans for longer than two or three years within the last year, and they knew their charters were expiring this year?

Mr. FRASER (*Northumberland, Ont.*): I would say the answer to that question is that I have not an intimate knowledge of for just what duration their loans have been, but again I will refer to myself and say this to you that we find that our bank loans to-day are naturally on the same basis as in the past; loans are made as long as we keep on repaying them with interest.

Mr. TUCKER: Even although the charters were expiring this year.

Mr. FRASER (*Northumberland, Ont.*): Quite true, but I say if we refused to renew the charters for ten years the banks would soon be confronted, as they have been for the last three months in this committee, with spending day after

day listening to evidence, being cross-questioned, having sound and unsound principles laid before them; they would go through all this agony at the end of two years. I say it would not only be extremely detrimental to the banking system but it would be extremely detrimental to the borrower and the depositor, the people of the whole of the Dominion of Canada.

Mr. MAYBANK: Is it not a fact that over the last year, two years or three years the banks were perfectly certain that their charters would be renewed and that is why they loaned money for longer periods?

Mr. FRASER (*Northumberland, Ont.*): I think, Mr. Maybank—

Mr. MAYBANK: But if you serve notice on them now that they are going to be up again in two years they will not be in the same condition of certainty that they have been in the last couple of years. Is that not right?

Mr. FRASER (*Northumberland, Ont.*): I think that is the obvious answer.

Mr. TUCKER: Why should they be more certain of renewal now than two years from now?

Mr. MAYBANK: After all, a man may not think I am going to hit him but if I keep a club over his head he is a little less certain of the fact than if I had the club thrown away in some vacant lot.

Mr. BLACKMORE: He will keep on his toes though, will he not?

Mr. FRASER (*Northumberland, Ont.*): There is another point that is worthy of very serious consideration in connection with the renewal of these bank charters. I would be blinding myself, and so would every member of this committee, if we refused to recognize and realize to-day that there are certain strong movements taking place in the Dominion of Canada as in other parts of the world. I am not going to make at this time anything but a passing reference to these movements. We remember a number of years ago one of the street phrases was, "It cannot happen here".

Mr. McGEER: Another was, "It cannot be done".

Mr. FRASER (*Northumberland, Ont.*): No, I think you misunderstood me.

Mr. BLACKMORE: And another was, "We cannot find the money".

Mr. FRASER (*Northumberland, Ont.*): I was not referring to the banking system. I was referring to certain movements and those who said that it could not happen here. It has happened since then in at least four or five countries throughout the world.

Mr. JACKMAN: There is the question of liberty in Europe.

Mr. FRASER (*Northumberland, Ont.*): As my hon. friend says there is the question of liberty in Europe. In France they talked away their liberty and talked away democracy.

Mr. McGEER: And kept the Bank of France.

Mr. FRASER (*Northumberland, Ont.*): I do not agree, Mr. Chairman, that they kept anything. I do not think they kept anything, but I am only making that as a passing reference that certain things can happen here. I think it is the bounden duty of every member of this committee in every statement he utters to be most careful about statements made in this committee in connection with suspicion of our banking institutions, statements made in this committee in connection with western Canada against eastern Canada, Quebec against Ontario, because they are dangerous in the light of present events to the safety of the liberty and democracy of the people of the Dominion of Canada. Mr. Chairman, if we sit here and vote for this amendment and refuse to renew the charters of the Canadian banks for the people of the Dominion of Canada, as I have said, and has been said in this committee for the past three months, we would be remiss in our duty; we would lack a realization of the unthinkable

ramifications that might take place. We are—and I will use a quotation—on the altar of changing conditions in Canada and throughout the world.

Mr. McGEER: We might get another Bennett depression.

Mr. FRASER (*Northumberland, Ont.*): And for one, Mr. Chairman, to the limit of my capabilities and understanding of the economic and social situation of the Dominion of Canada I am emphatically against this amendment and irrevocably for renewing the charters of the Canadian banks for another ten years.

There is just one other point I wish to make in connection with this subject. Yesterday I think Mr. Perley made certain statements in connection with the treatment extended by the banks to the western wheat pool. I was rather disturbed by that. I believe that this committee should ask one of the bankers whom we have with us to take the stand, tell the story and answer the statements made by Mr. Perley. I do not think that statements of that kind should be left on the record unchallenged or unanswered.

Mr. TUCKER: We would only get one side of the story. We would not get Mr. Bennett's and the government's side.

Mr. FRASER (*Northumberland, Ont.*): We have certainly had the other side of the story.

Mr. PERLEY: That is common knowledge.

Mr. FRASER (*Northumberland, Ont.*): All I am asking, Mr. Chairman, is that you in your capacity as chairman, and obviously with the permission and sanction of the committee, ask any banker you like to take the stand and answer that question.

In conclusion, Mr. Chairman, may I say that I am so concerned—not as a member of parliament but as a Canadian citizen—about certain trends in this country to-day, that I cannot refrain from repeating what I said a minute ago, let us renew these charters for ten years and fortify to the limit of our capabilities against the disruption of the banking system of the Dominion of Canada.

Mr. MACDONALD (*Brantford*): Hear, hear!

Mr. FRASER (*Northumberland, Ont.*): Let us renew these charters for ten years; and if it does take place, let the responsibility for any disruption or sabotaging rest on the shoulders of others than us. That is a matter for the future. To-day we are dealing with the problem and question we have had before us as a banking and commerce committee. Let us prove that we are quite capable of making our decisions, quite capable of realizing the difficulties that lie ahead, realizing the dangers with which this country may be confronted in the post-war period, and let the bankers go back to their jobs, as Mr. Hanson has said, and carry on a legitimate, well-managed industry, which they have been doing, not in the interests of the shareholders and directors alone, but as a borrower for forty years I say in the interests of the progress and the welfare of the farmers, industrialists and commercial people alike, across this country.

Mr. MACDONALD (*Brantford*): Hear, hear!

Mr. FRASER (*Northumberland, Ont.*): Thank you.

The CHAIRMAN: Mr. Cleaver has the floor.

Mr. CLEAVER: Mr. Chairman, I have a suggestion to make, if I may. We are in the dying hours of the session. I believe there are several members on the committee who wish to express their views. I wonder if we could, by mutual consent, agree that from now on the speeches would be limited to ten minutes.

Mr. MACDONALD (*Brantford*): Five minutes.

Mr. CLEAVER: No, I want to be fair. Do not cut them down too short. Make it either ten or fifteen minutes.

Mr. MAYBANK: How are you going to get mutual consent?

Mr. CLEAVER: We hope, anyway.

Mr. RYAN: Mr. Chairman, is it your intention to permit the repetition of everything that has been said here since the month of March?

The CHAIRMAN: Well—

Mr. RYAN: I do not want to make any objection to any speaker, but certainly during the last week or so it has just been repetition that has been going on.

Some Hon. MEMBERS: Hear, hear!

Mr. RYAN: The point is this. We are getting a little fatigued with the whole thing. As far as I am concerned, I am very pleased to have been a member of this committee and I think I have had a full course in banking during the last four months. I hope it will benefit me in the future. But all the same, I think it is getting tiresome listening to all this repetition; and from what I can see around here, there is going to be a good deal of it yet. I think it is about time that the question was called.

Some Hon. MEMBERS: Question.

Mr. McGEER: Mr. Chairman, I object—

The CHAIRMAN: Just a minute, Mr. McGeer, please. Mr. Cleaver has made a suggestion which I think is worthy of the attention of the committee. Could we agree to limit our addresses to twenty minutes?

Some Hon. MEMBERS: No.

Mr. MACDONALD (*Brantford*): Fifteen.

The CHAIRMAN: All right, fifteen.

Mr. MACDONALD (*Brantford*): Your suggestion of twenty minutes is, I think, too generous.

The CHAIRMAN: Say fifteen. All in favour of fifteen minutes?

Mr. MACDONALD (*Brantford*): I think ten minutes would be plenty.

Mr. KINLEY: Before you put the motion, Mr. Chairman—

The CHAIRMAN: It is hardly a motion.

Mr. KINLEY: The suggestion is that each member take ten minutes. Will it be agreed that that will be his last word on the subject?

Mr. McGEER: You cannot put closure into effect in this committee. It is absolutely out of order unless we agree to it.

The CHAIRMAN: Mr. McGeer, all I am going to suggest is that we take the opinion of the committee as to the limit of the speeches to be made. Then we would have to leave it to the members to abide by that decision.

Mr. McGEER: If the committee members had expressed their opinion—and everybody knows it—the bulk or the majority of the committee would have had no discussion at all, and closure would have been put in at the beginning.

The CHAIRMAN: I think that is a very unfair statement and quite uncalled for. I ask the members who would like to limit the speeches to ten minutes to please raise their hands.

Mr. MAYBANK: Mr. Chairman, I am quite in favour of speeches being limited to ten minutes, but I suggest to you that it is impracticable for us to pass this motion at the moment because we have not any power to enforce it. It is after all only the expression, as Mr. Hanson so frequently says, of a pious hope.

The CHAIRMAN: Yes.

Mr. MAYBANK: So we are only wasting ten minutes now going into it.

The CHAIRMAN: Mr. Maybank, I have said it is only an expression of opinion.

Mr. COLDWELL: Mr. Chairman, I think we really should be prepared to take a vote on this. I do not believe any amount of argument can change any single man's opinion in this committee. There has been argument back and forth for a long time.

Some Hon. MEMBERS: Hear, hear!

Hon. Mr. HANSON: Let us take a vote.

Mr. COLDWELL: While I am willing to hear the arguments and will not vote to limit the speeches, I think that we should, in the dying hours of the session, consider whether or not any member's opinion will be changed; and if not, I think we should be prepared to take a vote.

Some Hon. MEMBERS: Hear, hear!

Mr. TUCKER: I object to the statement which was made by Mr. Coldwell that we have been arguing this point back and forth for a long time. This amendment came before this committee yesterday.

Mr. COLDWELL: A month ago.

Mr. TUCKER: Yesterday.

Mr. MACDONALD (*Brantford*): It was discussed all through the hearings.

Mr. TUCKER: The amendment itself, I submit, was not really discussed until yesterday, so far as I know. This, I submit, is fundamental to this question of whether the banks shall be answerable to the representatives of the people or not. Mr. Hanson, representing the Conservative party, takes the same stand as he did in 1934. I think I am taking the stand that the Liberal party took at that time when the Honourable Ian Mackenzie moved that the bank charters should not be extended for more than five years. I take that same attitude, and I say to my fellow members that we should take the same attitude now in office as we took in opposition. It is fundamental. It is the difference between the Liberal party and the Conservative party. We take the attitude that in an important function of government such as the creation of the purchasing power of the country, the people who are in charge of that obligation should be responsible to the representatives of the people. The Conservatives say they may make a mistake, and we want to put it beyond their power so long as possible. It is a fundamental thing, Mr. Chairman, and I think that we should thresh it out now.

The CHAIRMAN: Well, we are going to thresh it out, I presume. But I am just asking how many members would like to take a vote now. Please raise your hands.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Well, it is undoubtedly the opinion of the majority.

Mr. McGEER: It was the same when closure was moved.

The CHAIRMAN: Take the number who raise their hands, please, Mr. Clerk.

Mr. MACDONALD (*Brantford*): It is carried.

The CHAIRMAN: How many are opposed to taking the vote now? All I can say is that twenty-three vote to take the vote now and four vote against taking the vote now.

Mr. FRASER (*Northumberland, Ont.*): Let us have the vote.

Mr. MAYBANK: Oh, no.

The CHAIRMAN: I do not know that I am authorized to say take the vote now if there are four members who oppose the taking of the vote. I presume that it would be just as well to hear those four members speak.

Mr. MAYBANK: No, Mr. Chairman; the minority is in charge of the committee. I desire to take the vote now, but I am not moving closure.

The CHAIRMAN: No, no. That is my ruling, Mr. Maybank. That is what I am trying to say.

Mr. MAYBANK: If any man wants to talk, we cannot close him out.

Mr. CLEAVER: Having made this proposal, I think perhaps I should take a minute or two to clarify my suggestion. I was not suggesting that any attempt should be made by force to limit the length of the speeches of the members; but in the light of all the discussion we have had, if a majority of the members of this committee think that the future speeches should be limited to ten minutes, I then think that the members of the committee ought to respect the wishes of the majority; and it was my hope that they would do so.

The CHAIRMAN: We hope that.

Mr. McGEER: Of course, if that suggestion had been made prior to the two speeches we have had on behalf of the banks, it might have had more to commend it.

Hon. Mr. HANSON: I suggest we had a right to make these speeches. I made no speech for the banks.

Mr. CLEAVER: We have heard you, Mr. McGeer, for two days.

The CHAIRMAN: Mr. Ryan has the floor.

Mr. RYAN: I do not think that, if we give each member another ten minutes to discuss this matter, it will make any difference. I agree with the leader of the C.C.F. party that we are decided on how to vote, and the ten-minute talk would be a repetition of what has already been said.

Mr. McGEER: Wait till you see.

The CHAIRMAN: Order, please, Mr. McGeer. Please let Mr. Ryan finish his remarks.

Mr. RYAN: There is no doubt, Mr. McGeer, that it would just be repetition, because everything has been gone over in this committee since the month of March. There is no doubt about that at all. I honestly do not think we should go on any further. We have other work to do. They are trying to finish the session by the end of next week, and we want an opportunity to assist at the meetings of the house.

Mr. COLDWELL: Having made the proposal that we should take the vote, may I say that I am not in favour of closure.

The CHAIRMAN: Oh, no.

Mr. COLDWELL: I want that understood.

The CHAIRMAN: That is understood.

Mr. COLDWELL: My thought was merely that, after the members of the committee had discussed this whole racking problem at such length, we ought to be prepared to take a vote because nobody's vote would be changed.

The CHAIRMAN: Mr. Coldwell, that is all I am inclined to suggest to this committee. May I suggest in reply to the statement that we have heard two rather long speeches from Mr. Hanson and Mr. Fraser that they were in reply to two rather long speeches from Mr. Tucker and Mr. Perley.

Mr. FRASER (*Northumberland, Ont.*): Mr. Chairman, I should like to correct the record in one respect. The honourable member for Vancouver-Burrard made the statement that the committee had heard two speeches on behalf of the banks by Mr. Hanson and myself. I wish it clearly understood that what I said before this committee was based on my experience and the product of my own thoughts uninfluenced by anyone.

Mr. McGEER: I accept that, but what I would like to say is that the speeches were in support of renewals of the bank charters for ten years.

Mr. PERLEY: Mr. Chairman, I have listened to the speeches of Mr. Hanson and Mr. Fraser, and there are other things I would like to say to substantiate

what Mr. Tucker has said. However, I will forego making another reply, because I know it might promote more and more speeches. To facilitate getting on I am prepared to take the vote now.

Mr. McGEER: Mr. Chairman, notwithstanding the time taken in this discussion that has ensued, the committee is now dealing with what I believe to be two of the paramount issues before it. The first issue is, are we to fasten the bank charters onto Canada over the period of the next ten years, a change only being available providing the Senate would concur with the House of Commons should the House of Commons decide that a change in the banking system were necessary. The other is, and the issue has been clearly defined by the last two speakers, that no investigation whatever should be continued into our banking and monetary system; that we should accept the position as it is to-day and retain that position in status quo for the next ten years. I want to say to the members of this committee that I believe you would have very great difficulty in convincing the majority of the Canadian people that any such course as that was either wise or justified in this period of tremendous change and in the period that lies ahead, which no one can foresee or predict with any degree of accuracy.

Now, I want to make it clear that my position with regard to the renewals of the bank charters is in support of the amendment; that if those charters are renewed for two years, whatever the electors of Canada may do within that two-year period, it will then be open to the voice of the people of Canada, unfettered and unrestricted, to redefine their monetary system and their banking system and their fiscal policies if they so desire.

Mr. FRASER (*Northumberland, Ont.*): Through their elected representatives.

Mr. McGEER: Through their elected representatives; unbound and unfettered by the elected representatives who sit here to-day and who may or may not be returned to deal with the problems of to-morrow.

The CHAIRMAN: Gentlemen, please permit Mr. McGeer to continue without interruption.

Mr. McGEER: Thank you, Mr. Chairman. Now, I wish to repeat what I said in the House of Commons on May 9, 1944:—

We have made, of course, great progress. But we can go further. We can finance the building of a Canada that would stand out as one of the foremost nations of the world, because our 12,000,000 people, Mr. Speaker, are I believe the richest 12,000,000 people anywhere in the world. We have more in our possession and more work to do than any other people in the world, and unless we allow ourselves to be hobbled and fettered as we have been in the past by the bad advice of our financial experts and by the discarded theories of orthodox finance, we can not only give a lead to our own people but make Canada an example for the whole world to follow, and make it one of the brightest parts of the ... commonwealth of nations that form the substantial part of the British empire.

Mr. FRASER (*Northumberland, Ont.*): What are you reading from?

Mr. McGEER: I am reading from a speech I made on the floor of the House of Commons on May 9, 1944.

Mr. BLACKMORE: That is absolutely true; that is absolutely right.

Mr. McGEER: I want to refer to the Sirois report which was referred to by the honourable member for Northumberland. It deals very definitely with the conditions which brought about the last post-war boom and depression and at page 144 it says:—

In addition to the dark outlook for the two principal exports, there was the over-extended condition of the internal credit structure. Canada was closely affected by the investment and speculative boom in the United States. Her citizens participated extensively in the New York stock market and assumed large capital commitments with typical American optimism. These tendencies were facilitated by the nature of the Canadian monetary system which was without anchor and without control. . . .

Mr. McNEVIN: It is anchored now.

Mr. McGEER: Not necessarily so.

. . . Under the Finance Act the Canadian banks were able to extend their loans and increase the money supply without reference to the restrictions of the gold standard, which in fact had to be abandoned as early as the end of 1928. Consequently, in the atmosphere of the time, credit was over-expanded giving rise to much speculative and inflationary activity.

Now, coming from the Sirois report, you have a finding that controls were then necessary to avoid the inflationary condition. I do not believe we have established controls that could prevent a repetition of that very same thing again. It is to that point that I think our Banking and Commerce Committee this year, on the facts established, should recommend to the government a further investigation with a view to developing further improvements and to developing controls under the new conditions under which we are going to live. Now, make no mistake about it, banking in Canada to-day is not what it was in the 20's or the 30's, and banking in the coming years is going to be a very different thing from what it has been up to now. For the first time in our history we are, perhaps, not merely controlling inflation at the top but the measures we introduce in our parliament are designed to prevent deflation by stabilized floors on prices. Now, if that means anything, it means that we are organizing for a suitable expansion of Canada upon a basis that should bring Canada up to a much higher standard both in national and community and individual life than it has ever enjoyed before; and it will mean that the circulation of the medium of exchange balanced and controlled against boom and depression must be equated to the rate of the progress science with government assistance and the energy and industry of the people can establish. This is an entirely new problem in a new world; and to say that to-day we have no reason to continue an investigation to adjust our monetary and banking facilities to meet this situation would seem the kind of thing that I am satisfied the people of Canada will repudiate. It is all right to do things of the kind we have been discussing: yes, put these bank charters through for ten years; yes, refuse any further investigation; yes, clamp this thing on if you will. But, don't make any mistake about it, when a government in times of this kind resorts to this kind of tactics there are bound to be reactions from the free Canadian people.

I give to my friends of this committee a warning; I have been in Canada all my life, I know it from coast to coast, and I think I know its people; and what I offer is not anything in the nature of prejudice, but what I offer is advice that is formed over a long period in the public life of this country. Now, let us take a look at what the Sirois commission found as to the attitude in 1932; the proposal to issue fiduciary—

Mr. KINLEY: If Bobby Burns were here, he would support you.

Mr. McGEER: Yes, if Bobby Burns were here, he would vote with me.

The proposals to issue fiduciary currency or simply to buy foreign exchange in some undefined way smacked of pure inflation. While these methods would have brought about depreciation of the exchange, the

government was not certain that it could keep either inflation or depreciation within control. In any case, the government felt that inflation in whatever form or for whatever purpose was neither a cure nor a palliative for the ills of the country. Because of the dangers and uncertainties which the government thought were involved in any aggressive monetary measures to combat the deflation, it struck resolutely to "sound" and orthodox policies.

That is at page 155 of volume 1 of the Sirois report and is supported in the end by a speech made in the House of Commons by the then Minister of Finance, Mr. Rhodes.

Now, what is the result? The result was that the depression continued and the Macmillan committee was set up and the Bank of Canada was established as a private monopoly and changes were made—

Mr. KINLEY: It was not a private monopoly; surely you won't say that.

Mr. McGEER: Now at page 185 of the Sirois report there is this further finding:—

Monetary policy, in the broad sense of the term, has only recently become a part of the framework of national economic policies which we are discussing.

It was only when the gold standard broke down and national currencies began to drift about in aimless and alarming fashion that the question arose, and even then it arose somewhat belatedly.

Mr. McNEVIN: Mr. Chairman, it is one o'clock. Are we going to meet again at four?

Mr. CLEAVER: Let Mr. McGeer finish; he suggested he could finish in about five minutes.

Mr. MACDONALD (*Brantford*): I think we ought to have a vote now.

The CHAIRMAN: We will meet again at 4 o'clock this afternoon.

The Committee adjourned at 1:05 o'clock p.m., to meet again at 4 o'clock p.m. this day.

AFTERNOON SESSION

The Committee resumed at 4 o'clock p.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. McGEER: Now, Mr. Chairman, at the noon adjournment I was quoting from the Sirois report at page 185:—

Monetary policy in the broadest sense of the term, has only recently become a part of the framework of national economic policies which we are discussing. In the past, the policy of the gold standard had always been implied, and accepted unquestionably as the only conceivable basis for development. This was virtually a required condition for a Canada which was part of an international gold-standard-and-trading economy, and it facilitated the rapid adjustment of prices and costs which was essential for a country in its position. The chief concern was the evolution of a banking system which would meet the very special and seasonal requirements of the Canadian economy within the framework of the gold standard. The highly centralized but elastic system of banks operating on a national scale which developed, was remarkably successful in this respect. It was only when the gold

standard broke down and national currencies began to drift about in apparently aimless and alarming fashion that any question arose (and even then it arose somewhat belatedly) as to whether Canada needed a monetary policy of its own and adequate machinery to carry it out. The creation of a central bank provided the machinery, but conflict over the ultimate objectives of policy remained.

My submission is that they are still undetermined, and that the conflict still remains. That report on the same page goes on to say:—

To-day much of the initial surprise and confusion has passed, and it is recognized that the purchasing power of the dollar not only can be deliberately altered but that it is at times expedient, and now considered almost respectable, to do so. But while the direct results of such action on individual interests are now more clearly understood, the effects on the economy as a whole, or sectors of it, remain largely matters of surmise. For one thing, these effects will depend on action (and reaction) in other countries; for another they will depend on the relative bargaining position at the time of the different interests affected, either favourably or unfavourably, and their ability to pass on the losses or retain the gains; and they will also depend on the nature of the other economic policies adopted by the government. But monetary policy has become one of the agencies by which the dominion affects economic life and income in all parts of the country, and which makes Canada for certain purposes an economic unit.

The Sirois commission following their investigations plainly told us that while we have developed the machinery for controlling the value of the Canadian dollar internally we are yet, or at least as far as their investigation was considered, and that was in 1939; and we have had nothing but a war program since, as far as the general economic structure of Canada and spectres of it in the realm of undetermined surmise is concerned. I do not think we have in the present machinery the controls that are necessary to permit either the government or the Bank of Canada to control the flow of credit through the merchant banks under the powers that they have so that it can be, as the Sirois report indicates and finds that it is, a real influence upon the economic life of the dominion as a whole or any part of it. Nor do I believe that we have the power to stabilize or hold the rate of expansion in our day; nor do I believe that under present controls we have the power to prevent inflationary conditions producing a boom in commodities, in lands, in stocks or in anything else; not necessarily a boom which will reflect itself in prices alone but a boom which can be even just as dangerous reflecting itself in surpluses of unusable production.

I just want to draw the attentions of members of the committee to the methods which were employed in financing the war from 1914 to 1920 and the methods employed from 1939 to 1944, in so far as the monetary factors at the disposal of the government were employed. In 1914 we had in issue \$165,000,000 of dominion notes. In financing the war we had increased that to \$367,000,000; an increase of \$202,000,000 over the \$165,000,000; not quite 200 per cent, but approximately that. In 1939 we had \$448,000,000 of Bank of Canada bills; in 1944 we had increased that to \$1,371,000,000; so that we took and increased our Bank of Canada bills by \$923,000,000 over \$448,000,000, or just somewhat more than 200 per cent. But in broad outline and proportionate to the total increase from 1914 to 1920 the same difference in national currency in the form of Bank of Canada bills has been employed in 1939 to 1944. Now, take your bank deposits; in 1914 we had \$1,144,000,000 of bank deposits, and in 1920 we had \$2,438,000,000; an increase of \$1,294,000,000 over \$1,144,000,000; again an approximate increase of 100 per cent. At the end of 1939 we had bank deposits of \$3,144,000,000, and in 1944 that had increased to \$5,297,000,000, and at the

rate it is increasing it will probably be \$6 billion at the end of 1945; but in any event we have an increase of \$2,153,000,000 over \$3,144,000,000; or roughly an increase of 75 per cent in our bank deposits as against 100 in 1920. Again, the same use of the monetary unit of bank deposits has been employed and in broad pattern in relatively the same proportion. The most interesting comparative figure resulting from the other two is of course the public debt. In 1914 we had a public debt of \$335,000,000, and in 1920 it was \$2,248,000,000; or an increase of \$1,913,000,000 over \$335,000,000; roughly six times an increase of our public debt. In 1939 our public debt was \$4,693,000,000 and in 1944 it was roughly \$14,500,000,000—that is taking Mr. Graham Towers' figure of \$11 billion as at the end of October 31, 1943, and the budget figures which indicate that an increase of \$3,200,000,000 will take place by the end of the present fiscal year. So that while we have six times an increase in our public debt in 1920, we shall have $3\frac{1}{2}$ times that increase. Now, again, we had in broad outlines subject to variations in a certain degree, exactly the same program; what I want to draw to the attention of the minister and the members of this committee who are of the opinion that there are effective controls available to-day is that we have now in issue in the possession of the banks in their tills and on deposit with the Bank of Canada as the property of the chartered banks and in general circulation \$1,400,000,000 of Bank of Canada cash. What portion of that Bank of Canada cash will be held by the public and released from the public and deposited in the banks and become bank cash reserves is unknown. The only information we have is that out of that huge amount of Bank of Canada cash reserves, or available for cash reserves, some \$501,000,000 is held by the banks to support their present $5\frac{1}{4}$ billion dollars of bank deposits, but make no mistake about it that floating in general circulation there is enough Bank of Canada cash if it comes into the possession of the banks to permit the banks to increase their total deposits by another 5,000 million dollars.

Hon. Mr. ILSLEY: I am not sure you are right. I think there is one item there of two or three hundred million dollars.

Mr. McGEER: I would be very glad to be corrected. You mean in the Bank of Canada?

Hon Mr. ILSLEY: I think so. I may be wrong about that. The picture as I have it in my mind is—and these figures will be rough and subject to correction—that the amount of Bank of Canada notes and Bank of Canada deposits has increased something slightly over a billion dollars since the outbreak of the war.

Mr. McGEER: That is right.

Hon. Mr. ILSLEY: Of that \$225,000,000 or thereabouts is merely a book-keeping entry. It has some relation to the taking over of gold from the Bank of Canada by the Foreign Exchange Control Board, and the balance of \$775,000,000 must be divided between the increase in the notes held by the general public, Bank of Canada notes held by the general public, and the increase in the cash reserves of the chartered banks. It comes down to this that the figure I have in mind as to the increase in cash reserves of the chartered banks is \$216,000,000. That was at the end of 1943.

Mr. McGEER: At the end of 1943. It will be the difference between \$268,000,000 and \$443,000,000 which would be less than your figure according to this bank statement, but it is an increase up to April of \$501,000,000.

Hon. Mr. ILSLEY: It is just a matter of degree, Mr. McGeer. Your argument is with the large increase in the Bank of Canada notes in the hands of the public, which have not gone into the banks to increase their cash reserve, that sometime they may in which event the cash reserve of the banks will be up, and that that will have an inflationary effect.

Mr. McGEER: I say that neither the government nor the Bank of Canada has any control as to when that cash in circulation, or any portion of it, will be released from the public to the banks.

Mr. TOMPKINS: It depends upon the activity of business and all that sort of thing.

Mr. McGEER: That is exactly what the last boom and depression depended upon, but we are talking about effective control notwithstanding those variations. Let me put these figures on the record. As of 1939 the chartered banks had in their tills 55.6 million dollars, and on deposit with the Bank of Canada 212.6 million dollars making a total of \$268,000,000. Government deposits amounted to 29.8 million dollars; other deposits 10.2 million dollars; active Bank of Canada note circulation 129.3 million dollars; all other accounts 11 million dollars, a total of 448.5 million dollars. As at April, 1944, notes in the tills had increased to 116 million dollars; deposits at the Bank of Canada 385.2 million dollars, a total of 501.2 million dollars. Government deposits were 24.6 million dollars; other deposits 17.4 million dollars; active Bank of Canada note circulation 799.3 million dollars; all other accounts 28.8 million dollars, or a total of 1 billion, 371.3 million dollars. The last figure I have seen in the report from the Bank of Canada lifts it now to something above \$1,400,000,000.

Mr. TUCKER: You were just reading from what?

Mr. McGEER: Pardon?

Mr. TUCKER: You did not say what you were reading from?

Mr. McGEER: I am reading from the Bank of Canada statistical summary for April/May, 1944. I read these figures into the record because I do not want any question about even a matter of degree.

We are in exactly the same position with regard to the monetary factors and the actual controls, in my submission, that we were in 1929 because, as a matter of fact, while the bankers tell us what they do as a matter of practice, what we as parliamentarians and committee men have got to deal with is what we permit the bankers to do as a matter of law. Under section 59 as you have left it, with the amount of cash that has been issued in this war through the Bank of Canada to the banks and to the public, which may or may not become available as cash reserves, we have put enough cash reserves in issue to authorize the inflation of bank deposits to the extent of more than 10,000 million dollars. On the recommendation that you must make to parliament, having now agreed to leave section 59 with its 5 per cent reserve, you must ask parliament to adopt an act which authorizes the inflation of bank deposits to the extent of double the total bank deposits which you have created up to the present time.

Hon. Mr. ILSLEY: Has the Bank of Canada not the power to offset that?

Mr. McGEER: I do not believe it has.

Hon. Mr. ILSLEY: That is the contention which is always made, and which I believe is correct.

Mr. McGEER: I have never been able to find it. Certainly the Bank of Canada had no power to raise the price level from 1932 to 1939. The only effective organ that came into being to alleviate the conditions of that depression was the actual expenditure of money by the Dominion government. Municipalities were crippled, our provincial governments were crippled, business generally was at a standstill, and other than the relief that flowed across from the New Deal in the United States the only relief that came to elevate prices and to relieve unemployment and to create going concern activity came from the expenditures of the government. Your monetary machinery never had any effective control other than to maintain, as was said, an easy money policy to create within the banks the reserve that permitted the banks to monetize the

dominion government bonds for the purpose of giving the dominion government power to spend money to relieve the depression. You are leaving that situation exactly as it was in 1939, in my submission, as far as effective control to accomplish what the Sirois commission indicates in this report is concerned:

But monetary policy has become one of the agencies by which the dominion affects economic life and income in all parts of the country, and which makes Canada for certain purposes an economic unit a monetary policy of its own and adequate machinery to carry it out. The creation of a central bank provided the machinery, but conflict over the ultimate objectives of policy remained.

And it still remains. How are we going to find out how to improve the situation that they have told us, and that everyone acknowledges with Mr. Towers, was bad. Let me refer you to what was done in 1914 to 1920, according to the findings of the Macmillan Committee. Here is what they say, and I quote from page 58, section 190, of the Canadian Macmillan Report:—

The Canadian government did not attempt to use the dominion note issue to any extent as an agency of inflation. The government borrowed from the banks, through the sale of treasury bills, and then repaid the banks from the proceeds of bonds sold to the public. Under the provisions of the Finance Act the banks were able to borrow dominion notes—cash reserves—which provided a base on which to support the added credit made necessary by the financial operations of the government. In this way the Finance Act may be said to have been the efficient agency which made effective the policy of inflation which Canada, in common with all belligerent countries, followed.

Are we not doing exactly that same thing to-day?

Hon. Mr. ILSLEY: The answer is "No".

Mr. McGEER: You say the answer is "No". Well, I quote from the Governor of the Bank of Canada where I think the answer is very definitely "Yes"; and he says exactly what took place according to the finding. They used dominion notes as a base of reserves and then inflated bank deposits on them to purchase government bonds or government securities. Listen to what Mr. Towers tells us at page 6 of his report on the Bank of Canada:—

During 1943, the Canadian deposit liabilities of the chartered banks increased by \$748 millions. In addition, total active note circulation (including Bank of Canada notes) rose by \$161 millions, making the total expansion in the volume of money, therefore, \$909 million during the year.

Dominion and provincial government securities held by chartered banks rose by \$626 millions during the year. Most of this increase was accounted for by special short-term issues which were sold to the banks by the dominion government. The outstanding amount of six-month deposit certificates bearing interest at three-quarters of one per cent per annum rose by \$275 millions during 1943, and on September 1st the banks bought \$200 millions of one and one-half per cent notes maturing July 2nd, 1945. In addition, a major part of the \$60 millions net increase in dominion treasury bills outstanding went into chartered bank portfolios.

Cash reserves of the chartered banks rose \$82 millions during the year, as shown in the table on page 1. Most of the expansion was necessary in order to maintain the cash ratio position of the chartered banks in view of the \$748 millions increase in their Canadian deposit liabilities referred to above.

They increased their deposit liabilities to purchase government securities, and they had to have cash reserves from the Bank of Canada in 1943 in exactly the same way that they had to have from the dominion cash reserves in 1920.

There is not one wit of difference in the practice being followed as far as the creation of new money is concerned to finance this war from the practice followed and adopted by those in charge of the fiscal policy of the country during 1914 to 1920. When I say that I am not talking about the differences in the rate of interest; I am not talking about the controls of production and the regulation of trade and commerce. I am talking about the monetary machinery that must be controlled by powers either given to the Bank of Canada or given to the Department of Finance itself. I venture to say that there is not a man in this room who believes that we can go on very much longer without creating the conditions warned against by the Honourable Charles Dunning as Minister of Finance in 1939 or the Governor of the Bank of Canada in 1943, when he told us that unbalanced budgets established beyond question a form of impossible strain, intolerable strain, on your economy and will wreck the whole scheme of free enterprise and destroy throughout the whole of the land those opportunities for expansion that are essential to the kind of freedom that is worth while enjoying.

I think, Mr. Chairman, that it is a dangerous thing to move into the conditions that we cannot escape in the post-war period, and which are even with us right now, with anything frozen that does not have to be frozen. I do not think that we in Canada have any dispensation or special immunity. I think democracy is on trial as it has never been on trial before in its history. I think it is in danger, and I think it confronts a period just as dangerous as it did at any time in its history. I do not want to appear to be dogmatic in whatever thoughts I have developed or whatever conclusions I have come to from whatever facts I have gathered together. They have been arrived at by the application of whatever little ability I have, with the expenditure of a good deal of time, thought and study. I find a great many men have been thinking the way I have been thinking; in fact, they have led me to think the way I do, and they are much more competent, probably, to form conclusions than I am. Certainly after the address this morning from my distinguished and very good friend from Northumberland, where he offered to give us the experience of a Canadian business man—and he is a Canadian business man of outstanding experience and ability—I thought it would not be a bad idea to put before the committee the conclusions of an outstanding business man, one who had achieved great success, upon the need for investigation and upon the need for change. Edward A. Filene developed one of the largest businesses of its kind in the eastern United States. He was a philosopher, a man who died leaving a very large fortune to his employees, and therefore probably somewhat of an idealist and a little out of line with ordinary business. In 1925 he wrote a book entitled, "The Way Out" and this is what he had to say about banks, banking and the monetary system:—

It is clear beyond need of explanation that most of the sins for which the modern revolutionist indicts our social system are sins of the financial point of view not of the administrative . . . I could bring numerous instances to show how the substitution of the banking for the administrative point of view affects good relations between employer and employees and seriously hinders social progress. As an astute critic of our social system has said "An adequate study of the modern political organ that has grown out of the ancient business of exchanging and storing money must soon be undertaken." For the fact is that the administration of credit has become one of the greatest forces of social control in modern times. Credit is the life-line of the business system which feeds, clothes and shelters mankind. It is therefore a species of social treason not to regard its administration as a public responsibility and a creative opportunity. The real rulers of modern society are not the men who own the most but the men who exercise most control over enterprise, namely the men who administer the world's money.

I think it is true to say that the slow, and to my mind, often sinister encroachment of the financial upon the administrative point of view in business and industry has given the modern revolutionist one of his best arguments. Filene was a business man and not a monetary reformer.

Mr. KINLEY: In the United States.

Mr. McGEER: He would have been just as successful in Canada.

Mr. KINLEY: Well, you went out of the country to get a man.

Mr. McGEER: Mr. Kinley, he had developed one of the largest businesses in the eastern United States, in Boston; we are not in disagreement on that.

Mr. KINLEY: He was a very wealthy man.

Mr. McGEER: Yes, and a very successful man, and a man who had more business experience in ten minutes than you or Fraser have had in fifty years.

The CHAIRMAN: Please, Mr. McGeer, that is not nice.

Mr. McGEER: Why the interruption?

The CHAIRMAN: I would suggest that we have no interference.

Hon. Mr. HANSON: I think we ought to get back to the amendment.

Mr. McGEER: We are coming back to the amendment.

The CHAIRMAN: Mr. McGeer, I will ask you to confine your remarks to the amendment.

Mr. McGEER: I will. What I am arguing is that this bill should not be recommended to freeze these charters for another ten years, that they should be kept open, that we should support Mr. Perley's amendment of limiting the extension of the charters to two years, and that in the meantime we should have a sweeping investigation. Now, I say again that we may not be here. I was very much intrigued—

The CHAIRMAN: Why be a pessimist?

Mr. BLACKMORE: Why not be a realist?

The CHAIRMAN: Do not be a pessimist.

Mr. McGEER: I am not saying we are not going to be here. I say we may or we may not; some of us may be dead. But we are in a world that is moving and we have to move along with it. On the 1st day of May one of the greatest speeches of the war was made in Moscow by Joseph Stalin, the President of the Soviet Republics.

Hon. Mr. HANSON: What does he say about extending the bank charters?

Mr. McGEER: This is what he says:—

The German army is a blind tool in the hands of these gentlemen and is called on to shed its own blood and the blood of other peoples and to cripple itself and other peoples not for the interests of Germany, but for the enrichment of the German bankers and plutocrats. That is what the experience of war tells us.

In reality the German fascists are enemies of European culture, and the German army is an army of medieval obscurantism, called upon to destroy European culture and assert the slave-owing 'culture' of the German bankers. This is what the experience of war tells us.

Now, couple that with Filene's statement that the modern revolutionist found his reason for attack, not in the administration of democratic government but in the exercise of financial power carried on either over or instead or outside of democratic government. Let me give you another warning. Ludwig has written the life of Joseph Stalin and he published it in 1942, he is also writing the life of our own Prime Minister, I noticed in the press the other day.

Hon. Mr. HANSON: He turns them out every six months.

Mr. McGEER: Here is what he said. He has had a pretty wide experience. I do not think there are many men in this room who have had a wider experience. In his foreword he says:—

I am irresistibly attracted by the social justice of the world. Though I am convinced that the power of personality is greater than that of numbers and I cannot be taken for a Marxist, the foundation of the Soviet Union appears to me as the greatest event produced by our century till today. The Russians are the only people that have broken the reign of money.

Stalin is so outstanding as a colonizer and general that he towers above most of our contemporary leaders—no matter what his end is going to be. Probably he will be the only dictator who survives the war. Who fears that Stalin's victory will bring world revolution is not aware of the fact that we are in it already.

Hon. Mr. HANSON: That is propaganda.

Mr. KINLEY: When was that written?

Mr. McGEER: 1942. What I say to you is this, you have a democracy in Canada and if democracy, according to the test of the publicly given vote, has not found approval. Is there any reason we should sit like dumb cattle—

The CHAIRMAN: Please, please.

Mr. McGEER: —and go on indifferent to the circumstances that surround us? Let me put on record just some of the recommendations that were made in the Sirois report. I do not believe we should sit idle. Certainly now is the time to be investigating to the limit; certainly now is the time to be taking away from the political life of the dominion those things which fail to satisfy the national ambitions of our people for their standards of living. Don't make any mistake about this; this thing is not going to continue. Our people are too close to the last depression. They cannot be told again that a nation that can find billions upon billions at present was competently governed and soundly financed when it could not find a few hundred million dollars to put Canadian youth off the rods and off the roads in useful work in Canada. What we are doing in this committee, by making recommendations which the majority have indicated, is to carry on, to freeze without change, to deny to future parliament and to Canadians the right to make changes in their banking system for a period of ten years.

Mr. KINLEY: No, no, no.

Mr. McGEER: You say, "No, no"; then, if you say, "No, no, no" what value is a ten-year charter and how can a ten-year charter be revoked unless the Senate refuses its right to exercise its veto power upon a parliament that will break a contract of a previous parliament? I recommend to the minister here as a member of the government that before that matter is taken on the floor of the house it might be well to take in conference the view of the government itself, because if that does go on the floor of the house I can tell you it is going to be made an issue there.

Mr. KINLEY: Another threat.

Mr. McGEER: That is not a threat; it is a plain statement of fact.

The CHAIRMAN: Mr. McGeer, I very rarely make suggestions—

Mr. McGEER: I will be through in a few minutes; I do not want any more interference or interruption. I have sat here and taken your interference—

The CHAIRMAN: Order, please. I want to say this, that I have been asked and asked by members of the house to have this matter referred to them so that they may have an opportunity of discussing it on the floor of the house—

Mr. McGEER: They are going to get it—

The CHAIRMAN: Let them have it.

Mr. McGEER: —if we stay here until Christmas, and the people of Canada are perfectly willing that we should sit until this thing is properly settled.

The CHAIRMAN: Quite so, but not to settle it in the committee but rather in the House where it belongs.

Mr. McGEER: Here is the place where it should be done. We haven't done anything like the investigating the thing needs here at all.

The CHAIRMAN: We have had some fifty sessions, I think.

Mr. McGEER: Yes, most of it has been waiting for members to show up, and the rest of it has been used up by interference on the part of others in respect to those who have been trying to investigate it.

The CHAIRMAN: By actual count we have spent less than one hour waiting for members of the committee to show up.

Mr. McGEER: You never spent any time waiting for me.

The CHAIRMAN: I admit that; nor Mr. Ryan either.

Mr. McGEER: Now, the Sirois committee were not backward in making recommendations. Why those recommendations have never been dealt with in a broad and satisfactory way, I do not know. We do know that one provincial conference was wrecked. But here these recommendations are, and I am going to quote from volume II, section G at page 269:—

In the present summary the aim is to set out the principal recommendations embodied in the report and to indicate briefly the reasons for them. At the heart of the problem lie the needs of Canadian citizens. These needs, whether material or cultural, can be satisfied only if all the provincial governments in Canada are in a position to supply those services which the citizens of to-day demand of them. The ability of provincial governments to meet the demands of their citizens depends in part on the constitutional powers which they enjoy, in part on their financial capacity to perform their recognized functions.

Then it goes on:—

The striking fact in the commission's study of Canadian conditions is that many provinces, whose financial position is not the result of emergency conditions, are unable to find the money to enable them to meet the needs of their citizens. The basic problem before the commission lies, therefore, in finding a way in which the financial position of the provinces could be improved and assured, without disastrous financial consequences to the federal government on whose efficient functioning all provinces are dependent.

Then it goes on to indicate some of the things that would have to be done, and one of them is this:—

The commission recommends that each province found to be in need of such a payment should receive it by way of an annual national adjustment grant from the dominion. This grant as originally fixed would be irreducible. The commission recommends, however, that national adjustment grants should be re-appraised every five years.

I just want to recall the situation when we were discussing old age pensions in the house when the cry came back again that we should not raise old age pensions as a national responsibility because the provincial governments were in a better position to finance these things to-day than was the national government or the federal government. If that is true, and knowing the conditions of our provinces and our municipalities and now that the war has exhausted our natural resources and has reduced the dominion government to the level indicated

in the provinces by the Sirois report, then we have lost the power which we used to alleviate the depression of 1939, and the power to build our war program to a winning position by having lost the power to further expand our national federal government debt load; I think that is where we were.

There is a way I believe, a sane way, reasonable and sound, by which a managed paper standard, upon which we are to-day and from which we shall never depart, can be developed to the point where what Mr. Neil stated in his report of 1932 could be evolved; where we could put into circulation through our municipalities and villages, through our cities and provincial governments, through our federal government and its agencies a quantum of medium of exchange necessary to sustain a given standard of Canadian employment and a given standard of living and a given rate of progress. I believe that co-ordinating with that the effective management and regulation of our national trade that we can help to improve a standard of living that rate of expansion and rate of progress in our economy suggests. I think that is the thing we should be investigating in the broadest possible lines. I think the saddest thing that has come to the people of the dominion of Canada is that the government of the day supported by a group of liberals in this house could line up with the tory chairman of the Banking and Commerce Committee of 1934 and go back to 1934, not ahead to 1954. That is exactly what is happening in this committee to-day. That is why, Mr. Chairman, I thought to-day I would place my views squarely before the committee in the hope that this committee will cease to look backwards, recognize that nothing in this world of ours may be stable, that in the pervading mutability of human affairs which has always existed we are in a very maelstrom of activity; to stand still there with our monetary system; to stand still there with our banking system, is to create what the other countries have created by standing still.

Mr. Chairman, I have to leave; which I have no doubt will please you and many of my colleagues; but if there is a vote taken this afternoon I want to be recorded as voting in favour of Mr. Perley's amendment and in favour of his investigation, and against the passing of section 5 as it stands.

The CHAIRMAN: Mr. Mayhew has asked for the floor.

Mr. MAYHEW: Mr. Chairman, I am sorry that I cannot follow with the same degree of eloquence as my friend Mr. McGeer did in taking part in this debate. I have said very little during the course of the debate. I have been absent some of the time but I have been in fairly regular attendance. However, I think I should rise at this time and declare my position in connection with the amendment. I am sorry I cannot support the amendment proposed by Mr. Perley, and that proposed by Mr. Tucker—a personal friend and former room-mate—and also that endorsed by Mr. McGeer, another friend of over twenty-five years standing; and I may say a man who during that period of time I have never known to be anything else but ahead of the times; and probably what he is suggesting now he may be ahead of the times as well. However, I cannot see my way clear to support the amendment for the reason I do not think that an organization such as the chartered banks of Canada can carry on the functions that they should carry on in the way they should do it on any two-year term or on the longer term of having their bank charters referred to each parliament which would mean a four-year period. Nevertheless I do think that there should be some other means of protecting the public. What makes me say that is a couple of statements that Mr. Hanson made in the committee. One was—and it was a very simple one—that he said, "On the part of the banks there has been abuse but that has been corrected and I hope it will not occur again." I maintain that is a very weak position for us to take, simply to hope that there will not be any abuses appear in the future so far as the banks are concerned. Being

human, and having many humans engaged in the ten chartered banks of Canada, I think it is a fairly dangerous position to put ourselves in.

Then he made another statement which I think he would not have made if he had reflected on it a little further and would not want it to appear just in the light that he uttered it. Speaking of the banks making agreements with the government he said, "We all want to get all we can in the matter of an agreement." If that is the philosophy of business men or the policy of business men, and particularly of the banks, then I say it is a wrong philosophy and an entirely wrong premise to base our position on. I think people who are engaged in business, whether it is commercial or industrial business, are entitled to a fair profit but they are not entitled to make the best bargain they can regardless of circumstances, and say that no one should ever in any case take advantage of the other man's adversities. I do not think that the banks have been wholly without blame in that regard. I think that sometimes they have been to blame although generally speaking they have not.

There have been many things that have been said in the committee but personally I do not think up to date we have really examined and studied what we are here to study. Surely it was not merely to pass the Bank Act clause by clause that we were sent here. Personally, as I said at the opening of this committee, and the only time that I made any remarks worth mentioning at all, there were three things in connection with our proceedings that I thought we should take into consideration. The first one was, have the chartered banks of Canada performed an adequate service to the people of Canada? Secondly, have we paid too much or too little to the banks of Canada for that service? In the third place, can the banks of Canada, without some change in their charters, continue to serve the people in the post-war period and with the expansion that we not only hope will come but must come within Canada if we are going to take care of the men who return from overseas and those who come from our munitions factories to seek work elsewhere?

If we go back to the first point I maintain we have not examined it. I do not believe this committee is really capable of examining the first point that I have mentioned and coming to any satisfactory conclusion. I think they have performed an adequate service and a splendid service if you want to view it in the light of the stockholders of the banks. I think if you want to view it in the light of the depositors of the chartered banks of Canada they have also done an excellent job, but I ask you again have they done a totally adequate job when you think of the development of Canada as a whole? I would ask you to look for one moment at the map of Canada. We see there only a very narrow strip of the whole of Canada which has been developed. How much of the responsibility for its undevelopment is due to a faulty banking system or how much of it is due to other causes I cannot say. I do not lay it all on their doorstep but I think they are responsible to some extent for it.

Mr. BLACKMORE: Hear, hear.

Mr. MAYHEW: There may be other reasons as well. One may be the climate, that we are in the northern part of North America and it is a colder climate. Probably that has something to do with it but again I would point you to the map. Let us take a very favored spot in Canada, the Niagara peninsula right out to the point. I ask you to compare that with similarly located positions in the United States. Go into Ohio or Michigan or similar parts of the United States adjacent to that favorable spot. I say again it is not nearly as highly developed in that part of Ontario as it is in the United States. Is that the responsibility of the banks or is it not? I say we are not in a position here to-day to make a complete and final statement as to whether a different banking system would have resulted in a higher development of that part of Canada.

When we come back to western Canada, the part that I know best, there we see miles and miles of open country, acres and acres of it that are unsettled.

We see very few industries there. There again you will say that the banks will help industry in the west if it has a possible chance of succeeding just the same as they will in the east. Quite right.

Mr. BLACKMORE: No, that is not right.

Mr. MAYHEW: I do not agree with you, Mr. Blackmore. I think they will, but there is this situation, that they will consider whether or not the industry that is going to start in the west is going to be in competition with some industry in which the banks are already very heavily involved.

Mr. BLACKMORE: Hear, hear.

Mr. MAYHEW: Those things must be investigated. Let me give you one illustration as to what I mean in connection with it. I go into one of the banks and I ask for a loan. If I have security to put up and am able to pay it back in a matter of three, six or nine months, as the case may be, they are willing to lend it, but if I have a potential \$1,000 on which I want to borrow I have difficulty. It might be that it was a ten or twenty acre lot on my farm where I have to take the bush off it, fence it, drain it and put it under cultivation; it is going to take two or three years to do that, and the banks are not interested in that kind of loan. Therefore, when that is not developed the country is that much poorer. It is not a matter of how much we have paid in the way of dividends to stockholders with which I am concerned; it is how much we have paid in undeveloped country as a result of our banking policy. I am not saying it is wrong but I am saying there is some reason why certain parts of Canada are not as highly developed as other parts, and that that is one of the causes. I think probably from the standpoint of years of experience I have had as much as most of you. I have been in business myself for over forty years, and I assure you I started without very much money and without any help from anyone. So far as I am concerned the banks have always been very friendly and have treated me personally just as well as they could have treated anyone. So far as I am concerned I would not want any better treatment from any class of people than the banks have accorded me. But I say I have been through a good deal of it. I was through the 1908 to 1912 real estate boom, and I know that in that time the banks were quite prepared to loan money to people whom they thought were good risks, to go ahead and speculate in real estate. I maintain that the banks could have stopped and headed off that real estate boom if they had acted as I think they should have acted.

I was in the city of Calgary at the time, and I met the managers of one of the banks. I do not know whether it was in my office or in his. Probably I was on the carpet, although I do not know whether I was or not. Anyway, this is what he said. He said, "we should have a young man as manager of this bank in the city of Calgary. This is a young man's country." I said, "I do not agree with your statement. It is not a young man that we want in this bank to-day. It is a man with experience, a man who knows the banking business, a man with grey hairs, if you wish, to whom we are able to go to discuss our affairs and get sound and good advice—not a man who is going to lead us into more speculation, but a man who is going to lead us into solid, good business." The result was that it was not a young man who came to the bank, and it was a good thing for it.

I was again through the boom period of 1926, 1927 and 1928 and 1929. There again I maintain that the banks of Canada could have stopped that boom period before it reached that period of 1929. But there again, they would loan money more quickly, because their security was more easily available to them, for men to speculate in the stock market than they would loan money to industry. So far as I know, there was only one bank out of the ten that prior to the crisis of 1929 took their customers out of the stock market. They lost some accounts, but those accounts were regained when they saw

what had actually happened. How much of that responsibility—we cannot put it all on them; the people have a right to take their share of it—rests on the banks? Some responsibility rests with them.

I do not want to take any more time, but here is the suggestion I have to make, and probably it is not a practical one. We have an inspector of banks. He is paid, as I understand it, by the banks. That, in my opinion, is entirely wrong. He is the servant of the people. He is not the servant of the banks.

Mr. TOMPKINS: Pardon me, but may I explain that, Mr. Mayhew?

Mr. MAYHEW: Yes.

Mr. TOMPKINS: I am paid by the government. The government are recouped by an assessment on the banks, in precisely the same way as the expenses of the superintendent of insurance are recouped in Canada, and as the expenses of the comptroller of currency are recouped in the United States. I am not paid by the banks.

Mr. MAYHEW: I am glad to hear that. I was misinformed. I was informed that you were paid by the banks, and I say that was wrong.

Then if that is not the case, all right. What I wanted to say was this. Let us have a committee or a commission, not of one man but of three or four men, that would be a permanent body, sitting here to examine what the banks are going to do. I do not want to see them come before this committee and have repeated every year what has gone on in this committee; because I do not believe, honestly, that there are half a dozen men in this committee who are capable of saying what we should do in this committee, as we know so little about the banking business. We know something about our own business, but we do not know enough about the banking business to come in here and really make laws that are going to govern this country. That has been proven, in my opinion, by the many things that have been stated in this committee since it started. So why not let us have a permanent committee that will be constantly on the alert and in case of fault, they would hear of it. As a matter of fact, I do not believe that they would have anything to do. But I think that the banks realize that to-day they are renewing these charters probably for the last time. It will be definitely the last time they will ever get these charters renewed if they slip once during this next ten-year period or if this country is in a position where we cannot get enough money to rehabilitate and supply the needs of the country in the next ten years after this war is over. If that cannot be done, then the banking people will not dare to come, I do not believe, to this government for a renewal of their charters, and they know that. At the same time a committee or a commission of three will not only keep an eye on what the banks are doing, but if there is any fault, they have a right to hear it; not only that but they could study the greater problem, the far greater problem, as to why Canada has not been developed. Is it the fault of the banks? What more assistance can we give? What more can we do towards helping the banks so that they in turn can help to develop Canada? Is it purely a government matter or is it a matter of climatic conditions? What is the condition? If that study were made, then at the end of the ten-year period we would at least be able to have a report of the constant study of at least three men who would lay before the next committee sitting to revise the charters of these banks, some concrete and sensible report as to the action to be taken, based on what has actually happened.

The CHAIRMAN: Mr. Blackmore, have you asked for the floor?

Mr. BLACKMORE: Yes. Mr. Chairman, I regret greatly that it became necessary for me to be absent for several days from the proceedings of your committee. I personally have found the meetings of this committee very

advantageous and very profitable and rich in every respect. Even gentlemen with whom I heartily disagree, had thoughts which stimulated me. I feel that our time has been very well spent. I could say at the outset that I believe that we ought to pass the resolution which has been advanced by Mr. Perley. I bear the banks no ill-will at all as banks or as an organization of bankers. But I am positive that something has gone radically wrong with the financial structure of this dominion. Every avenue of study into which I have delved, and every month I grow older, convinces me more thoroughly that is true. I think the remarks of Mr. Mayhew were very good. There is a question that needs to be answered and nobody in Canada is trying to answer it, least of all the men who occupy positions in the financial field and government of Canada. All they seem to be trying to do is sit tight, keep the people from getting the facts, and stay with the old way of doing things. I am really surprised, as I told some one to-day at noon quite casually, that we have not had somebody in Canada or a group of people go into the whole performance of Russia and find out why it is that Russia, starting from scratch, has been able to do the marvelous things financially that she has been able to do. Do you know that question is being asked everywhere by the men in the services?

Mr. FRASER (*Northumberland, Ont.*): The answer is "repudiation".

Mr. BLACKMORE: Repudiation would not build the monster armies they are now hurling against the Germans.

Mr. FRASER (*Northumberland, Ont.*): They started from scratch.

Hon. Mr. ILSLEY: Do you not think Canada has done marvelous things?

Mr. BLACKMORE: Canada has done marvelously well.

Hon. Mr. ILSLEY: We praise every country but our own.

Mr. BLACKMORE: But Canada has not begun to do what Canada could have done.

Hon. Mr. ILSLEY: Well, that is a matter of opinion.

Mr. BLACKMORE: Let us bear in mind that the great resources, both human and material, existed in Canada in 1932 that existed in 1944.

Mr. McNEVIN: In proportion to our population our war record compares very favourably with the war effort of Russia. They have 170,000,000 of people, and we have less than 12,000,000, and if you will divide the Russian war effort by 12 or 14 you will find that our record compares very favourably with theirs.

Mr. BLACKMORE: All I can say in answer to the honourable member is that that answer will not be accepted by the boys in the services. That is all.

Mr. FRASER (*Northumberland, Ont.*): Why do you say that?

Mr. BLACKMORE: I do not hesitate to say this. Let us take the honourable member's remark: If we should divide Russia's war achievement by a certain number to arrive at the proportionate achievement of Canada then we should multiply Canada's achievement with reference to her people many times in order to compare it with Russia during 1932, a thing that stands to the everlasting disgrace of parliament.

Mr. McNEVIN: That is what you do every time when there is an answer to a question that you ask that fully answers that question; you forget all about it and you jump into another field. If you want to talk about the second field, and I wanted to take up the time of this committee, I can put you in the same place you were with your former question. I do not think that is the function of this committee—to jump all over the board.

Mr. BLACKMORE: Is the honourable member quite finished?

The CHAIRMAN: Mr. Blackmore, I can only urge that you speak to the clause before the committee.

Mr. BLACKMORE: How could I possibly speak more pertinently to the question?

The CHAIRMAN: I can think of many ways.

Mr. BLACKMORE: I am pointing out, Mr. Chairman, that for some reason or other the financial organization in this country has failed to deliver the goods.

The CHAIRMAN: While you were away, Mr. Blackmore, we had from the deputy minister an outline of the banking system in the Soviet Union and, as I recall, the deputy minister stated that our system and their system were very much alike.

Mr. BLACKMORE: Now, I merely used Russia as an illustration, and I am pleased to know that we paid a little attention to the banking system in Russia. I missed part of the session, and I am not sure that Russia is right at all and I am not sure that Russia is wrong; but the important thing as I see it is that we should study to discover why it is that such phenomenal results have been attained by that nation. Insistently we hear someone say, "This is not the place". Will someone say which is the proper place?

The CHAIRMAN: The House of Commons.

Mr. BLACKMORE: The House of Commons is simply useless discussing a question like this.

The CHAIRMAN: Order.

Mr. BLACKMORE: If 50 members together out of the House of Commons with plenty of time at their disposal cannot discuss this question when they have nothing else to do but talk on it, how can the House of Commons deal with it when it has the whole range of legislation for the whole year to deal with?

The CHAIRMAN: Mr. Blackmore, may I say that certain members of your group have asked me when we are going to put this Act before them so they can speak on the subject. Now we are only about one-fifth of the membership of the House of Commons, and I strongly urge that we should not monopolize all the talk about the matter.

Mr. BLACKMORE: Mr. Chairman, we are proceeding true to form. It has been the invariable rule in this committee that as soon as I started to talk we had this sort of thing going on constantly.

Mr. FRASER (*Northumberland, Ont.*): Do you know why?

Mr. BLACKMORE: Simply because I am saying things you do not like.

The CHAIRMAN: No. You have been given to interruption when others were speaking too, you know.

Mr. BLACKMORE: May I proceed?

The CHAIRMAN: Yes, please do.

Hon. Mr. HANSON: Stick to the text.

Mr. BLACKMORE: The text is whether or not the banking concerns of Canada should be given a renewal of their charters for ten years.

Hon. Mr. HANSON: Right.

Mr. BLACKMORE: Or whether they should be given the renewal for only two years.

Hon. Mr. HANSON: Right.

Mr. BLACKMORE: Now, the only way we can determine whether or not we ought to give the banks a renewal of their charters at all is by reference to their record of performance, and their record of performance is not very good.

Mr. FRASER (*Northumberland, Ont.*): Who said so?

Mr. BLACKMORE: I am saying so.

Mr. FRASER (*Northumberland, Ont.*): You do not know what you are talking about.

Mr. BLACKMORE: Very likely—

Mr. FRASER (*Northumberland, Ont.*): It is a simple statement; you do not know what you are talking about.

Mr. BLACKMORE: That is the kind of thing that happens always. So the honourable member for Rosthern does not know what he is talking about, neither did Mr. Bickerton with all the farmers of Saskatchewan behind him.

Mr. FRASER (*Northumberland, Ont.*): Stick strictly to yourself.

Mr. BLACKMORE: Because those people were agreeing with what I am saying. I think I put on record when Mr. Wedd was before the committee—I think I caused to be put into evidence on the record enough to condemn the performance of the banks in Canada.

Mr. FRASER (*Northumberland, Ont.*): That is your opinion.

Mr. BLACKMORE: All right. I think so, and my judgment ought to be worth something.

Mr. FRASER (*Northumberland, Ont.*): You have a perfect right to your opinion.

Mr. BLACKMORE: I am expressing my attitude as a member of the committee and as a representative of one of the constituencies of Canada.

Mr. FRASER (*Northumberland, Ont.*): As a member of the committee I think your judgment is screwy.

Mr. BLACKMORE: I am happy about that because I would be worried if I found myself in agreement with you.

Now, I want to deal with Mr. Fraser's remarks this morning and ask him one or two questions. I did not interrupt him except in a brief way, but I have noted this question which I would like to ask Mr. Fraser and he is at liberty to answer or not as he wishes with your consent, Mr. Chairman. I would ask him if he would agree that the banks could and might break industries. I think he said they could not make industries; but will he agree that they could break industries.

Mr. FRASER (*Northumberland, Ont.*): I would not agree to that, no.

Mr. BLACKMORE: I am going to read to the committee for the benefit of Mr. Fraser and others who might be interested a statement from the submission of the government of New Brunswick to the Rowell-Sirois Commission.

Hon. Mr. HANSON: I would like to make a remark and this gives me an opportunity. The submission which the honourable member made in the House of Commons and which he now proposes to make was specifically withdrawn before the Rowell-Sirois Commission. I have the positive proof upstairs and I am going to send for it. That submission was not made to the commission at Fredericton. I was there and I know what I am talking about. It was withdrawn by counsel for the government of New Brunswick.

Mr. BLACKMORE: Mr. Hanson is sending for the facts—

The CHAIRMAN: I think you had better pass on for the moment.

Mr. BLACKMORE: While Mr. Hanson is sending for the evidence that it was withdrawn you might send for the evidence to show the pressure under which it was withdrawn.

Hon. Mr. HANSON: I have no evidence of that.

Mr. BLACKMORE: That is important—the pressure under which it was withdrawn. This statement appears in the submission of the New Brunswick government. Now, if the members of this committee are prepared to question the integrity of the men who prepared this submission representing one of the sovereign provinces of this dominion, well and good; but I am not. I am reading from page 49.

Mr. CLEAVER: I think in view of what Mr. Hanson has said you should wait a few minutes.

Mr. BLACKMORE: I think my opinion ought to govern in this matter. Since I have undertaken to read it it would be a good thing for the people to know why it was withdrawn, and what appears in this submission. I have it here on page 49.

Hon. Mr. HANSON: The submission was never made to the commission.

Mr. BLACKMORE: The submission is published here for all to read.

Hon. Mr. HANSON: It was not presented to the commission.

Mr. McCANN: Where is your volume of the Sirois report?

Mr. BLACKMORE: I have not been able to find in this submission a copy of what I am using now, any part of it. I have not been able to find the submission of New Brunswick in the Sirois report, not the submission of New Brunswick.

Mr. CLEAVER: Obviously you could not find it, Mr. Hanson says it was never made.

Mr. BLACKMORE: I think you will find that it was made. If it was not made there needs to be a very definite explanation of why that particular passage was depleted from the submission.

Hon. Mr. HANSON: You have a submission mind.

Mr. BLACKMORE: Well it was prepared and sent to all the members of parliament for everybody to read. I have seen it.

Hon. Mr. HANSON: So have I; but I again affirm, and the records will support me, that that part of the submission of the province of New Brunswick was specifically withdrawn by counsel on behalf of the province of New Brunswick and was not presented to the Sirois commission. I was present on that occasion in person.

Mr. BLACKMORE: I still think that that document, the particular section to which I referred a moment ago, is worthy of consideration by the members of this committee. It is on page 49 and reads as follows:—

In this connection it is well that the commission should bear in mind that the Canadian banks have been centralized in Ontario and Quebec. Prior to confederation and for some years afterwards we had our own banking institutions in this province and our people were able to obtain money for the encouragement of industry here.

The head offices of these banking institutions were removed, after confederation, to Montreal and Toronto where they were situated more immediately in touch with the financial interests by which they were controlled.

The result has been that industries in New Brunswick have not been able to obtain financial assistance in cases where such assistance would enable our local industries to compete with those in the provinces of Ontario and Quebec. Pertinent cases may be cited where local industries in this province have been destroyed because of the difficulty of financing and we submit that finances have been withheld as local industries might come into competition with similar industries in the last mentioned provinces.

Hon. Mr. HANSON: That is an ex-parte statement, not proven.

Mr. FRASER: Mr. Blackmore asked me if I would answer that question. I would be very glad, with your permission, to answer it now.

Mr. BLACKMORE: You mean the question I asked as to the ability of the banks to break industries?

Mr. FRASER: My answer to that question is that industries are not broken by banks, they are broken by mismanagement—

Hon. Mr. HANSON: Hear, hear.

Mr. FRASER: —over-expansion, unintelligent and impractical operation, lack of foresight and sometimes hindsight, or in other ways. Now, Mr. Chairman, there is another question which arises out of that section of the report of the province of New Brunswick which was just read by Mr. Blackmore; regardless of whether that was submitted or not submitted, the head offices of the different banks were moved to Montreal and Toronto but the banking facilities were just as available to the people of New Brunswick as they were to the people of Ontario and the banks were just as anxious to loan money within the margin of safety and within the margin of safeguarding the return of the loan, in precisely the same way as in Ontario and Quebec. And the obvious reason for that was, as I stated this morning, that the banking business derived its revenue from the retailing of credit, through loaning to industry and commerce the money on which to operate and develop. And I said this morning also that I had had some experience with the banking business in at least three of the provinces with three different banks. I have never been refused credit in the city of Vancouver any more than I would be refused it in the town of Trenton or the city of Toronto. And now, the banks do not wreck a business, they simply work it in a businesslike way in financing business operations. And I said this morning also that the stupidity and hard luck, or bad luck, are twins; and that applies to business, and when they get into that category they certainly are out of business, put there not by the banks but through their own mismanagement.

Mr. BLACKMORE: Now, Mr. Chairman, you see right here in this committee now, this afternoon, there has been the testimony of New Brunswick brought to bear against the hon. member; and there is the testimony given by Mr. Tucker with respect to Saskatchewan yesterday, I understand; and there is the testimony of—

Hon. Mr. HANSON: That is not testimony, that is ex-parte statement by counsel.

Mr. BLACKMORE: Here is my testimony from Alberta.

Hon. Mr. HANSON: That is not evidence.

Mr. BLACKMORE: It is testimony, it is opinion.

Hon. Mr. HANSON: It is an ex-parte statement of counsel; no court of law would receive it without proof.

Mr. FRASER: It is no more testimony than what I was just giving you.

Mr. BLACKMORE: Exactly; Mr. Fraser did not support his statement by evidence.

Mr. FRASER: I will support my statement by the evidence of experience.

Mr. BLACKMORE: I simply state, here is a voice from New Brunswick saying what the banks have done; along with that we have heard from four of the provinces of the dominion in support of it.

Mr. MAYHEW: I never said that the banks did not do a good job. I said they did a good job.

Mr. BLACKMORE: Did you not say there was difficulty in obtaining credit in British Columbia?

Mr. MAYHEW: In obtaining credit?

Mr. BLACKMORE: Yes.

Mr. MAYHEW: I said that I have not any difficulty in obtaining credit in British Columbia. While I am up I want to say that I do not agree entirely with Mr. Fraser, that the banks do not break business.

Mr. TUCKER: Of course they do.

Mr. MAYHEW: The banks in my experience have broken many businesses by giving them too much credit.

Mr. FRASER: I will go for that.

Mr. BLACKMORE: Was it the giving them too much credit or the refusing of later credit the thing that broke them?

Mr. FRASER: Giving too much credit.

Mr. MAYHEW: They gave them too much credit toward the end of the last war when prices were high and encourage over-speculation in merchandise; and I will say again that the banks gave too much credit to certain individuals at the start of this war where they loaned them large sums of money with the result that they increased their inventories even to the extent of trebling them when they knew right well they were going to be in short supply, and they made these loans and found they were putting in the different controls which we now have.

Mr. BLACKMORE: Controls over what?

Mr. MAYHEW: Over prices and products.

Mr. FRASER: That goes for farm loans too.

Hon. Mr. HANSON: May I go back to the statement I made here a little while ago: speaking in the House of Commons on the 17th of March, 1944, the member for Lethbridge (Mr. Blackmore) at page 1316 quoted from what he said he believed to be page 49 of the submission of the New Brunswick government. At the city of Fredericton on the 19th of May, 1938, in the records of proceedings and evidence taken, page 8730 you will find the following statement made by Mr. W. P. Jones, K.C., counsel for the government of New Brunswick, in the following terms: (this is before the Sirois commission at which I was present.)

Mr. Chairman, before reading, beginning at page 46, the effect of the tariff,—(this was the government's submission)—I desire to ask the commission to permit me to have deleted or expunged from the brief a few paragraphs on pages 49 and 50. Beginning at page 49, the fourth paragraph: "In this connection it is well that the commission should bear in mind", I would like to, from there down to the end of the third paragraph on page 50, ending "And excessive freight rates", if I might be permitted to have that deleted from the brief. We find that is a matter that it is difficult to establish by any kind of evidence.

Now, that is a statement made by counsel.

Mr. TUCKER: But that was their opinion when they drew the brief, they were afraid to put it through.

Hon. Mr. HANSON: They had no evidence other than a merely ex-parte statement of counsel; such as you and I have many times made in the hope that we might be able to get away with it. And these are the words deleted from the brief:—

In this connection it is well that the commission should bear in mind that the Canadian banks have been centralized in Ontario and Quebec. Prior to confederation and for some years afterwards we had our own banking institutions in this province and our people were able to obtain money for the encouragement of industry here.

The head offices of these banking institutions were removed, after confederation, to Montreal and Toronto where they were situated more immediately in touch with the financial interests by which they were controlled.

This is the pertinent part of the brief that was deleted:—

The result has been that industries in New Brunswick have not been able to obtain financial assistance in cases where such assistance would enable our local industries to compete with those in the provinces of Ontario and Quebec. Pertinent cases may be cited where local industries in this province have been destroyed because of the difficulty of financing and we submit that finances have been withheld as local industries might come into competition with similar industries in the last mentioned provinces.

This is only another example which indicates that New Brunswick has suffered through the operation of the protective tariff and excessive freight rates.

Let us not hear any more about it.

Mr. BLACKMORE: Mr. Chairman, I am well pleased Mr. Hanson took the pains to read to us that paragraph 3 on page 50 was to be deleted also. That is only another example which indicates New Brunswick has suffered through the operation of the protective tariff. May I read to the committee a statement bearing on this question of freight rates? If they had to delete these paragraphs because they could not support them with evidence, if that was the reason for the deletion then certainly there can be no reason for deleting the third paragraph on page 50 dealing with freight rates.

Hon. Mr. HANSON: They did not delete that.

Mr. BLACKMORE: You included that.

Hon. Mr. HANSON: No.

Mr. BLACKMORE: Read it again.

The CHAIRMAN: I think the matter of freight rates—

Mr. BLACKMORE: The point is, Mr. Chairman, that Mr. Hanson has called in question the validity of the quotation I read, and the fact that this paragraph on page 50 is included indicates—

Hon. Mr. HANSON: Let me be certain about it. Let us clear the matter up. I had not marked the third paragraph but Mr. Jones says, "Down to the end of the third paragraph on page 50 ending 'and excessive freight rates'". I did not read that but I will read it and it was deleted.

This is only another example which indicates that New Brunswick has suffered through the operation of the protective tariff and excessive freight rates.

That was asked to be deleted, too.

Mr. BLACKMORE: Would you say that could not be supported by evidence?

Hon. Mr. HANSON: No, he did not say that.

Mr. BLACKMORE: I should think not. When they say that they could not support it with sufficient evidence and this paragraph is included then I say the whole retraction becomes a farce.

The CHAIRMAN: I must ask, Mr. Blackmore, that we adhere to the matter under discussion.

Mr. BLACKMORE: All right, Mr. Chairman; I am going to assume—and I do not have to be shown the evidence, I have seen it—that the banks simply failed to discharge their responsibilities to western Canada during the years 1924 to 1939.

Mr. FRASER (*Northumberland, Ont.*): Give us that evidence.

Mr. BLACKMORE: There is not any question about that at all. I do not propose to give the evidence to support it. I am making the statement.

Mr. FRASER (*Northumberland, Ont.*): Then I make the statement that they did, and we will reach an impasse.

Mr. BLACKMORE: I know you would. Ontario and Alberta disagree on these matters.

Mr. FRASER (*Northumberland, Ont.*): We reach an impasse.

Mr. BLACKMORE: Then that is a pretty good time for a skillful commission to go into the whole matter. It is clear evidence the people are not satisfied with respect to the activities of the banks and it calls in question the proposition that the banks have discharged their responsibilities as they ought as public servants.

Mr. CLEAVER: Mr. Blackmore, if you have this evidence why should you deliberately conceal it from this Banking and Commerce committee?

Mr. BLACKMORE: I have made the statement, and I am leaving the statement to be refuted by anyone in this committee who thinks he can do so.

Mr. FRASER (*Northumberland, Ont.*): I just refuted it.

Mr. BLACKMORE: You challenged it.

Mr. FRASER (*Northumberland, Ont.*): I said it is not true.

Mr. BLACKMORE: That is not refutation; that is a challenge. Mr. Chairman, I believe this passage this afternoon in the committee has alone indicated a serious need for proceeding with the utmost caution in the matter of granting the banks a renewal of their charters. Once every two years would not be too often to call into question the whole procedure in our financial and banking system in this country. For that reason I am going to support the proposal that they be granted their charters for only two years. I think that the fact that no solution of the difficulty that confronts us has been offered is another matter which ought to give us cause for the utmost care in proceeding with respect to these bank charters. Mr. McGeer has given us a great many things to think about. I do not know whether sufficient has been made of the fact we have gone from an age of scarcity into an age of abundance. I am just wondering whether or not the banks are able to perform their responsibilities to the Dominion of Canada, the people of Canada, under the financial system which obtains. When I was questioning Mr. Bickerton I believe it was pretty well developed that if prices had been maintained at a stable and equitable level throughout Canada during the years 1930, 1931, 1932 and 1933 the banks would not have hesitated to go on lending just as freely as they did in 1929, in all probability. If markets had been maintained all through those years the banks would have been able to advance sufficient money to supply the needs of Canada. Does that not raise a question before all members of the committee whether or not something should not be done with the financial system of this country to render it more possible for the banks to discharge their responsibilities, and whether a change needs to be made in the banking system or the financial system of the country? More times than one I have gone out of this committee after the long discussions we have had and I have heard members who were sympathetic with the banks make a statement like this, "How could they have done differently? You could not ask the banks to loan at a loss." Such remarks as that have been made constantly. Does that not indicate that the change should be made perhaps in the financial system, in our distributive system? By that I simply mean is it not possible for the dominion to institute a system under which it can guarantee prices? The Liberals are proposing a floor. They have already used ceilings, but is it not possible to go much further than they have gone and guarantee such a floor as will ensure that when loans are advanced to producers they will be able to sell at prices sufficiently remunerative to enable them to repay? I asked a banker in western Canada one time this spring when we happened to be chatting about the whole setup, "If you could

be sure as the manager of a bank that prices were going to be equitable and stable what difference would it make to you in the conduct of your banking business?" He said, "Why, we would go into a pasture of rich clover. Ninety-five per cent of all our anxieties would be eliminated if we just knew that prices were going to be equitable and stable."

Mr. FRASER (*Northumberland, Ont.*): How is Canada going to arrange that?

Mr. BLACKMORE: That is the question that needs to be discussed by this committee. How is Mr. King, just while we are on the matter—now, one question at a time. I am equal to three of you at a time but not more than three.

Mr. CLEAVER: Put me down for the third.

Mr. BLACKMORE: I will take you on as soon as I get done with the other two. We are right down to the important point. That is why Mr. Hanson is complaining. When we get down to where it begins to hurt he begins to complain. Mr. Fraser has asked a question as to how Canada is going to arrange that. How has the dominion government up to the present time managed to guarantee ceiling prices? How have they done that?

Mr. FRASER (*Northumberland, Ont.*): By making the taxpayer pay.

Mr. BLACKMORE: Is it not conceivable there would be a way of doing it without making the taxpayer pay? I say it is.

Mr. FRASER (*Northumberland, Ont.*): No.

Mr. BLACKMORE: I say it is, and that is the kind of thing that perhaps Mr. Fraser ought to be looking into.

Mr. FRASER (*Northumberland, Ont.*): No, Mr. Blackmore; you try it with this dollar of yours I tried to sell you for one dollar.

Mr. BLACKMORE: And you refused to sell it to me for two dollars.

Mr. FRASER (*Northumberland, Ont.*): I will sell it to you for ten cents. I will give it to you for two bits right now.

Mr. BLACKMORE: All right, bring it over.

Mr. FRASER (*Northumberland, Ont.*): That is the easiest money I ever made.

Mr. BLACKMORE: You lost a thing which could be sold for ten times what you got for it.

Mr. FRASER (*Northumberland, Ont.*): You are welcome to it.

The CHAIRMAN: Please, Mr. Blackmore.

Mr. BLACKMORE: I want to deal just for a minute or two with the question. The honourable member, Mr. Fraser, has seen that we are right on a ticklish point and he brings in this little bit of nonsensical by-play in order to divert us from it.

Mr. FRASER (*Northumberland, Ont.*): No.

Mr. BLACKMORE: I want to come back to the question.

The CHAIRMAN: Order.

Mr. BLACKMORE: Is it possible for a dominion government to manage the economy of Canada so that it can guarantee ceilings and floors which are equitable and stable, without taking it out of the taxpayer? I say it is.

Mr. FRASER (*Northumberland, Ont.*): All right. My answer to that is, "Yes, under a dictator".

Mr. BLACKMORE: Not under a dictator at all.

Mr. FRASER (*Northumberland, Ont.*): Under a dictator.

The CHAIRMAN: Order, please. Mr. Blackmore, will you please stick to the matter before the committee?

Mr. BLACKMORE: We are on the matter exactly, Mr. Chairman.

The CHAIRMAN: I rule otherwise.

Mr. BLACKMORE: We are exactly on the matter. We are on the question of whether or not we shall renew the charters of these banks for ten years, so that for ten years there will be no further discussion of the vital matters pertaining to banking and the economic structure in Canada. I say to do that is to betray the trust that is imposed upon us. I maintain that to have discussion of this sort every year is not to have any too much. I say that, in this time of fearful change, we ought to be constantly at work trying to find out what it is in our financial system that makes it unable to distribute the abundance which we are able to produce.

The CHAIRMAN: Mr. Blackmore, before you went to Saskatchewan, you made that statement several times. The house is anxious to have us send the bill on to them. Is it necessary to repeat that statement over and over again?

Mr. BLACKMORE: It is not necessary to repeat it over and over again.

The CHAIRMAN: You have made it several times.

Mr. BLACKMORE: Except in support of the resolution before the house.

The CHAIRMAN: I do not think that will help the resolution, to repeat it over and over again. I doubt that very much. I must rule that you are repeating what you said on several occasions before.

Mr. BLACKMORE: All right. I will not be repeating in a minute. We are in an age of abundance. There is no doubt of that. That fact alone—

The CHAIRMAN: Mr. Blackmore, we have heard that many times. That again is repetition.

Hon. Mr. HANSON: Yes.

Mr. BLACKMORE: If we have heard it many times, why has it not been borne in upon the minds of those who have heard it.

Mr. FRASER (*Northumberland, Ont.*): Because nobody agrees with it.

The CHAIRMAN: Mr. Blackmore, I cannot tell you why your argument has not carried weight.

Mr. BLACKMORE: All right. One member says nobody believes that we are in an age of abundance.

Mr. FRASER (*Northumberland, Ont.*): Oh, no. That is not what I said.

The CHAIRMAN: Please let us get on.

Mr. BLACKMORE: You said nobody believes it.

Mr. FRASER (*Northumberland, Ont.*): Nobody believes this theory you have repeated time and time again.

Mr. BLACKMORE: I have not repeated a theory. I have merely made a statement that we are in an age of abundance. Our problem now is one of distribution.

Mr. MACDONALD (*Brantford*): We have heard that twenty times now.

Mr. FRASER (*Northumberland, Ont.*): The honourable member says he has heard it twenty times.

Mr. BLACKMORE: Just so long as this country has not discovered how to distribute the abundance which it can produce, it is one of the most dangerous things to pass a Bank Act giving the banks charters to carry on for ten years and close discussion in this parliament, effective discussion, on those vital matters pertaining to our financial and economic policies.

Mr. CLEAVER: Question.

Mr. FRASER (*Northumberland, Ont.*): Do you realize that we have the greatest distribution system in the world?

Mr. BLACKMORE: I was unable to hear what the honourable member was saying.

Mr. FRASER (*Northumberland, Ont.*): Do you realize that we have the greatest distribution system in the world, the greatest distribution facilities of any country in the world?

Mr. BLACKMORE: Then can you tell me why it is that such a tremendous number of our wage earners are getting less than \$500 a year, if that is the case?

Mr. FRASER (*Northumberland, Ont.*): I can tell you that.

The CHAIRMAN: Order, please.

Mr. BLACKMORE: Can you tell us why that is the case?

The CHAIRMAN: Order, Mr. Fraser.

Mr. BLACKMORE: It is all right, Mr. Chairman. I am glad to have him ask me questions.

The CHAIRMAN: I know you are.

Mr. BLACKMORE: Can he give us any idea why such a vast percentage of the earners are getting only \$1,000 a year or less?

Mr. CLEAVER: Question.

Mr. BLACKMORE: Why is that the case, if we have the greatest distribution system in the world? Can he tell us why in the United States in 1935, under the same system, the debt credit system, when they were able to produce \$4,400 worth of goods and services for every family in the country, they had 23,500,000 people on relief if they had the greatest distribution system in the world?

The CHAIRMAN: Mr. Blackmore, please get on.

Mr. BLACKMORE: Could you give us the reason?

The CHAIRMAN: I should like you to get on with your argument.

Mr. BLACKMORE: I am getting on with it.

The CHAIRMAN: I would ask Mr. Fraser to refrain from interrupting

Mr. FRASER (*Northumberland, Ont.*): I will.

Mr. CLEAVER: Do not even smile at him.

Mr. MACDONALD (*Brantford*): Oh, you have to smile.

Mr. BLACKMORE: That is one of the most valuable statements made this afternoon, that it is the greatest distribution system in the world, because it carries 100 per cent its own refutation. Any one on the street who knows anything about it, knows that.

The CHAIRMAN: Mr. Blackmore, please adhere to the matter before the committee.

Mr. BLACKMORE: I say that this argument alone constitutes the strongest possible reason why we should give the banks a renewal of their charters not for ten years but perhaps for one year.

Hon. Mr. HANSON: Well, I do not think it is relevant.

The CHAIRMAN: Order, Mr. Hanson. No interruptions.

Mr. BLACKMORE: Because if the banks are not part of our distributive system, what is part of our distribution system?

Mr. FRASER (*Northumberland, Ont.*): You will have to get me on the witness stand.

Mr. BLACKMORE: You are free to talk.

Hon. Mr. HANSON: Give it up, Mr. Fraser. Let him go on.

Mr. BLACKMORE: That is right. Keep on with this argument, and you will all give up after awhile, because I have truth on my side and common sense.

Mr. FRASER (*Northumberland, Ont.*): What have I got on mind?

The CHAIRMAN: Order, please, Mr. Fraser. Let us not allow the matter to degenerate.

Mr. BLACKMORE: It is not degenerating.

The CHAIRMAN: Well, that is my ruling.

Mr. BLACKMORE: Very well. The only proposal which we have for distributing our abundance is trade; and I am greatly alarmed, Mr. Chairman, to learn that all that Great Britain is offering is just international trade.

Mr. FRASER (*Northumberland, Ont.*): Mr. Blackmore, I am not the chairman.

Mr. BLACKMORE: I am talking to the chairman but looking at you. I like your looks.

Mr. MACDONALD (*Brantford*): You are not alone in that respect.

Hon. Mr. HANSON: Question.

The CHAIRMAN: Are you ready for the question?

Some Hon. MEMBERS: Yes.

Mr. BLACKMORE: If trade has failed so dismally, and trade is apparently the only means of distribution upon which we propose to depend for the next era, it constitutes another reason why we should give the greatest possible care to this matter.

Mr. FRASER (*Northumberland, Ont.*): If you let us get this vote through, we will have it all cleared up in five minutes.

Mr. BLACKMORE: You just want to get this vote through so you can clamp this iniquitous system upon the people of Canada for another ten years, and then you will be happy. Make it thoroughly possibly so that when the boys come back they will be able to ride on freight cars and on the rods!

Mr. FRASER (*Northumberland, Ont.*): I am perfectly happy.

The CHAIRMAN: Order, please.

Mr. BLACKMORE: You are perfectly happy. Force agricultural prices down to the point where people cannot live! You are perfectly happy! All that is involved. Now, I think I have said most of what I wished to say, Mr. Chairman.

Some Hon. MEMBERS: Hear, hear!

Mr. BLACKMORE: —with respect to this measure. I would say that to give the banks ten-year charters would be one of the most dangerous things we could do in this country. I therefore propose to support the amendment granting the banks only two years.

Some Hon. MEMBERS: Question.

Hon. Mr. LISLEY: Mr. Chairman, just before the question is put, if it is going to be put, I want to say a word about the amendment. The extension of the charters for ten years would give the situation a measure of stability that an extension for two years would not give it.

Hon. Mr. HANSON: Hear, hear!

Hon. Mr. LISLEY: I think that is very important in view of the fact that we are greatly extending the powers of the banks or the functions of the banks by the bill before the committee. That is, we are expecting them to enter the realm of intermediate credit rather than short-term credit. They will be making loans running over several years, up to ten years, especially to farmers. For that reason I think that as much assurance as we can reasonably give them of some stability in our banking laws should be given. I think it is in the interests of the country. That does not mean that parliament relinquishes control over the banks at all. If there is any substantial body of opinion in parliament next

year, for example, that there is something wrong with the banking system, there is no reason in the world why the banks cannot be brought before this committee, the Banking and Commerce Committee, and examined again, and amendments to the Bank Act suggested. If I am Minister of Finance then, and there is any such body of opinion, I certainly will favour such a course. I realize that certain members of the committee, feel that parliament, as a whole, can hardly be trusted to deal effectively with the banks, due to the fact that we have a two-chamber system, one of the chambers being appointive rather than elective. But it seems to me if we take the position that we cannot trust parliament we are really advocating, not ostensibly but in effect, constitutional change. I am not prepared to take that position at the present time. That is all I have to say.

Mr. BLACKMORE: I think your interpretation is unfair, Mr. Minister. Mr. McGeer is not here and I think a word ought to be said in his defence because this has reference to him. Mr. McGeer was using that argument not as evidence that there should be a constitutional change but as evidence that these bank charters should not be renewed for more than two years. I think this is exceedingly unfair.

The CHAIRMAN: There is an amendment moved by Mr. Perley that section 5, subsection 1, be amended by striking out the words "fifty-four" in line 31 and substituting therefor the words "forty-six". Will those in favour please indicate?

(Upon division the amendment was lost.)

Mr. PERLEY: I think we should have a recorded vote.

The CHAIRMAN: Is that necessary, Mr. Perley? The vote was 16 to 4.

Mr. BLACKMORE: Let us have the names of those who voted for it.

The CHAIRMAN: Does Mr. Perley insist?

Mr. PERLEY: I think we should.

Mr. BLACKMORE: The 16 should not be afraid if the 4 are not.

Mr. MACDONALD (*Brantford*): I think the 16 have pretty well expressed their opinions. I have no objection to voting.

The CHAIRMAN: I think if Mr. Perley stresses his request we will have to have a recorded vote.

Mr. PERLEY: All right.

Mr. BLACKMORE: I will request it.

The CHAIRMAN: We have another amendment. This is clause 5, subsection 2, line 37, delete "one hundred" and substitute "ten".

Mr. TUCKER: I must say that while I am not asking for a recorded vote one of our fellow members has asked for one and I do not think his request should be ignored.

The CHAIRMAN: I did not ignore the request. I thought Mr. Perley had withdrawn his request.

Mr. BLACKMORE: I ask to have it, and I think there should be a recorded vote.

Mr. COLDWELL: I think the recorded vote was asked for twice, and I think we should have one.

The CHAIRMAN: That is quite all right, Mr. Coldwell.

Hon. Mr. HANSON: Do not think we are afraid of a recorded vote.

(A recorded vote being taken the amendment was lost.)

The CHAIRMAN: We have another amendment. Clause 5, subsection 2, line 37, to delete "one hundred" and substitute "ten". Is there any comment required on that from the deputy minister?

Dr. CLARK: This is consequential, based on the amendment moved by Mr. Jackman which has passed the committee, on section 10 where the par value of the shares of bank stock was reduced to \$10. This does the same thing in regard to the existing banks.

(Carried.)

The CHAIRMAN: Now we have clause 165.

Mr. BLACKMORE: It is 6 o'clock, Mr. Chairman.

The CHAIRMAN: There is no rule that a committee should stop at 6 o'clock. In view of the importance of this matter I think we should be willing to work overtime.

Mr. BLACKMORE: In view of the importance of this matter I think it should be left over until tomorrow. I move we adjourn.

The CHAIRMAN: Those in favour of adjourning please raise their hands; those opposed? Your suggestion is lost.

Mr. BLACKMORE: In other words we get this jammed down our throats.

Hon. Mr. HANSON: You have no right to say that and you should withdraw it.

Mr. BLACKMORE: That means that the minority is disregarded altogether.

The CHAIRMAN: A minority is usually disregarded when a vote is taken. This is our forty-fifth session, and sometimes we held two sessions a day and on one occasion three sessions.

Mr. BLACKMORE: Mr. Chairman, this is the second session of this committee to-day.

Mr. FRASER (*Northumberland, Ont.*): You have been away running elections for a month.

Mr. BLACKMORE: I strongly object to have this measure carried; it is being carried over my head, and I strongly object. If the committee is ready to pass it now it will be ready tomorrow morning at 11 o'clock.

The CHAIRMAN: Mr. Blackmore, this clause will not be carried except by a vote of the committee. Clause 165. There is an amendment—I think a minor one.

Hon. Mr. ILSLEY: The amendment reads: That clause 165 of Bill 91 be amended by deleting the word "July" and substituting therefor the word "September".

(Carried.)

The CHAIRMAN: Is the clause carried as amended?

(Carried.)

Now we have clause 1, which is the title. Shall that carry?

(Carried.)

Shall I report the bill?

(Carried.)

Thank you, gentlemen. Before we adjourn we will need a motion to reprint the Bill for the house.

Mr. MACDONALD (*Brantford*): I move that Bill 91 be reprinted as amended by the committee.

(Carried.)

The committee adjourned to meet Friday, July 28th at 11.30 o'clock, a.m.

July 28, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Bill No. 131, an Act to amend the Quebec Savings Banks Act.

Dr. CLARK: Mr. Chairman, before you proceed with that may I table the answers to the questions asked by Mr. Hanson on the Industrial Development Bank? Mr. Towers has prepared answers.

The CHAIRMAN: Mr. Hanson, the Deputy Minister is tabling some information.

Dr. CLARK: I am tabling the answers prepared by Mr. Towers to the questions you asked in regard to the Industrial Development Bank.

Hon. Mr. HANSON: Have you a copy?

Dr. CLARK: I have not, and I am afraid Mr. Scott has not a copy but I think he can get an extra copy for you.

Hon. Mr. HANSON: Let me look at it now.

Mr. TUCKER: Is that going to be printed in the record?

The CHAIRMAN: Yes. Gentlemen, there are representatives here from Quebec, and it seems to me that it would be advisable to proceed with Bill 131, an Act to amend the Quebec Savings Banks Act. I think, perhaps, the deputy minister should make an explanation, more particularly in that there are one or two amendments.

Dr. CLARK: Mr. Chairman, I think all that it is necessary to say is that this bill is designed to extend for ten years the charters of the Montreal City and District Savings Bank and the other Quebec savings bank which was incorporated by the parliament of Canada, and which up until recently was known as La Caisse d'Economie de Notre-Dame de Quebec, and which is now changing its name as we will see in an amendment to be introduced later. Some of the amendments made in the bill are designed to follow along and be parallel with certain amendments that were made to the Bank Act. Others are designed primarily for clarification purposes and to meet certain problems that have come up in the course of experience in the last ten years. The minister will have certain amendments to suggest to the draft of the bill you have, and those amendments are almost solely consequential upon the amendments that have been made to the bank bill.

The CHAIRMAN: Clause 2, are there any amendments?

Dr. CLARK: You will note that clause 2 is the clause dealing with unclaimed deposits along the lines of section 92 of the bank Act bill, and the amendments that are suggested by the minister are designed to incorporate in this bill the amendments that were made in the committee to clause 92 of the bank bill. The first is, "That subsection 3 of section 3 of the Quebec Savings Banks Act as set out in clause 2 of bill 131 be deleted and the following be substituted therefor:—

(3) Upon payment in respect of any debt being made to the Bank of Canada under this section, the Bank of Canada shall, if payment is demanded by the person who but for the operation of subsection 2 of this section would have been entitled as creditor of the bank by which such payment was made, be liable to pay at its branch in the province in which such debt was owing and payable an amount equal to the

amount so paid to it together with interest thereon for a period not exceeding twenty years, if interest was payable on such debt, at such rate and computed in such manner as may be determined from time to time by the Governor in Council and such liability may be enforced by action against the Bank of Canada issued in a court of competent jurisdiction in the province in which the deposit was originally made."

In other words, it is the same type of amendment as was made to section 92 of the bank bill.

Hon. Mr. HANSON: I understand these institutions have no objection to this?

Dr. CLARK: No.

Hon. Mr. HANSON: The Quebec government is not represented here to-day?

Dr. CLARK: No.

Hon. Mr. HANSON: I was going to ask Mr. Taggart Smyth if they have any large volume of unclaimed deposits.

Mr. TOMPKINS: The total for the two banks as at the end of December was approximately \$247,000. That is everything. What proportion of that is in the twenty-year-and-over category I am not able to say.

Hon. Mr. HANSON: They are not subject to prescription, in any event.

Mr. TOMPKINS: No, not at all, and never have been.

Mr. MAYBANK: I do not suppose there is any objection to this amendment by the sponsors of this bill except such as were presented by Mr. Papineau-Couture on the Bank Act itself. Is that a fact?

Hon. Mr. HANSON: What is that again?

Hon. Mr. ILSLEY: I would assume the objections that were made to the amendment to the Bank Act apply to this bill.

Mr. MAYBANK: There is nothing special in the wording here that would introduce a different kind of objection?

Hon. Mr. ILSLEY: No, the same considerations exactly.

Mr. MAYBANK: And the policy was decided in regard to the Bank Act.

The CHAIRMAN: Is there any desire on the part of the representatives of the banks to appear? If none, Mr. Lafontaine, will you move the amendment?

Mr. LAFONTAINE: I will move this.

The CHAIRMAN: Is it your pleasure to carry the amendment?

(Amendment carried).

Shall the clause as amended carry?

(Carried.)

Dr. CLARK: There is another one of the same type for the same purpose.

That subsection 5 of section 3 of the Quebec Savings Banks Act as set out in clause 2 of bill 131 be deleted and the following be substituted therefor:—

(5) The bank may from time to time destroy its books and records containing entries made more than thirty years prior to such destruction and in any action, suit or proceeding in respect of any debt owing or alleged to be owing by the bank its liabilities shall be determined by reference only to evidence of matters or things which have arisen or occurred, including entries made in books or

records, during the period of thirty years immediately preceding the commencement of such action, suit or proceeding: Provided that nothing contained in this subsection shall affect the operation of any statute of prescription or limitation or any right of the bank to destroy any of its books and records as it may see fit or relieve the bank from any liability to the Bank of Canada in respect of any debt which is subject to the provisions of subsection 2 of this section.

The CHAIRMAN: Mr. Picard, do you so move?

Mr. PICARD: Yes. It is the same clause entirely as the Bank Act.

The CHAIRMAN: Shall the amendment carry?

(Amendment carried.)

Shall the clause as amended carry?

(Carried.)

Dr. CLARK: There is one more to clause 2. This again is of the same character. It was the new subsection 8 we put in section 92 of the bank bill.

That section 3 of the Quebec Savings Banks Act as set forth in clause 2 of bill 131 be amended by adding thereto a new subsection immediately after subsection 6 as follows:—

‘(7) Nothing contained in this section shall affect any right in respect of any debt owing by a bank mentioned in subsection 2 hereof which His Majesty in right of any province may have exercised or been entitled to exercise at the time of enactment of this subsection.’

The CHAIRMAN: Mr. Picard, do you so move?

Mr. PICARD: Yes.

The CHAIRMAN: Shall the amendment carry?

(Amendment carried.)

Shall the clause as amended carry?

(Carried.)

Mr. GRAHAM: Mr. Chairman, to give me some general information, as I have not examined the original Quebec Savings Banks Act, do these banks come under the Inspector General as do the chartered banks?

Mr. TOMPKINS: Since 1934; during the revision of the Bank Act and this Act in 1934 a clause was inserted bringing these banks under my supervision. Prior to that time I had not legal power although I had been volunteered certain information regarding their activities.

Mr. GRAHAM: Is there a shareholders' audit made in the same manner as under the Bank Act?

Mr. TOMPKINS: Not precisely the same but a very effective and thorough shareholders' audit.

Hon. Mr. HANSON: Mr. Chairman, I think it would be of great benefit if the committee were to hear a brief statement from Mr. Taggart Smyth of the Montreal Savings Bank as to the operations of his savings bank. I should like to see an institution of the same kind and character established in every province in Canada. This bank, as I understand it, has a long and very good history and it is the repository of millions of dollars of the savings of the people of the district of Montreal. The scope of their operations is that of a true savings bank. I believe their moneys are invested or put into investments, other than commercial investments, and their moneys are very safe. I would invite Mr. Taggart Smyth to give us a brief history as to the operations of his bank, and if he can, to enlarge upon the operations of the Quebec Savings Bank. I think their activities are a little greater. Would that be agreeable to the committee?

Some Hon. MEMBERS: Yes.

Hon. Mr. HANSON: I think it would be very informative.

The CHAIRMAN: Is it the pleasure of the committee to hear Mr. Taggart Smyth?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Mr. Taggart Smyth, will you please come to the platform?

Mr. T. Taggart SMYTH, General Manager, Montreal City and District Savings Bank, called:

The WITNESS: Mr. Chairman, Mr. Minister and gentlemen: The Montreal City and District Savings Bank was brought into existence in 1846. A clause in its charter says it is for the accommodation of the non-business class of depositors. We receive deposits of one dollar and upwards and we allow interest. We invest these to the best of our ability, according to the provisions of our charter, which are, as you will see, very restrictive. We have to invest 20 per cent of our money in dominion guaranteed or provincial and municipal bonds. Then we are allowed to invest the rest of the money in certain types of bonds which are described in the Act. The bank has now been in existence for ninety-eight years. Its deposits are somewhere in the vicinity of \$90,000,000. We have about 300,000 depositors. We serve Montreal and district. We make no exception to the amount that may be deposited except that, of course, we do not pretend to allow interest on very large amounts if it is left there just for the accommodation of the depositor.

By Hon. Mr. Hanson:

Q. You can use them?—A. Yes. We take small deposits and on these deposits we allow interest; and we invest them, as I have just said, in the very highest class of securities.

By Mr. Graham:

Q. What is your rate of interest?—A. Our rate of interest is fixed by law at 2 per cent. There are some amounts on which we cannot pay that because they are just there for convenience. On some we pay only one-half of 1 per cent, because we are not a very large bank; we enter into competition with the commercial banks, and if we paid more interest than they did they would not look upon it kindly.

By Mr. Fraser (Northumberland):

Q. Are the deposits on call or notice?—A. Call. They are on notice, technically on notice. But we have never asked for notice so they are practically on call.

By Hon. Mr. Hanson:

Q. You honour cheques on them?—A. We honour cheques, the same as other banks.

Q. Are you allowed to invest them in common stock?—A. No.

Q. Not at all?—A. No.

Q. Or in industrial bonds?—A. We have not power to invest in industrial bonds. We are asking for a small amendment.

Q. What other types of bonds do you invest in?

Mr. BLACKMORE: Mr. Chairman, could we have this given slowly so that we can hear what the witness says? We find it hard to hear what you say. When you are talking too fast we cannot hear at all.

The WITNESS: I am sorry. So far, we have not had the power to invest in industrial bonds. Our powers, so far, have been to invest in dominion, provincial,

dominion-guaranteed, provincial-guaranteed bonds; bonds guaranteed by the provinces, bonds guaranteed by the city, and also in a certain type of church bonds. Now we are asking for an amendment to the Act to invest in other bonds which are equally good, but which we have not the right to invest in now. We have no right to invest in industrial bonds.

By Mr. Fraser (Northumberland):

Q. Nor in mortgages?—A. Nor in mortgages; nor to invest in real estate of any kind, except for our own particular use, our own actual use.

By Hon. Mr. Hanson:

Q. Or speculative types?—A. No.

Mr. BLACKMORE: Mr. Chairman, we could not get the question and answer at all.

The CHAIRMAN: I will move over. I think you are too far to one side, Mr. Smyth.

Mr. MAYBANK: You are a hard man, Mr. Blackmore.

The WITNESS: Would you just repeat the question? I shall be glad to answer any question.

The CHAIRMAN: All right.

Mr. BLACKMORE: We were not able to get Mr. Hanson's question or your answer.

Hon. Mr. HANSON: I have forgotten my question.

The WITNESS: I think it was if we could invest in industrial bonds, and I said, "no". We are not authorized by law to invest in industrial bonds, but we are asking for an amendment to permit us to invest in certain types of industrial bonds.

By Hon. Mr. Hanson:

Q. Certain types?—A. Yes.

Q. What are they?

Dr. CLARK: They are set out in the new bill.

By Mr. Cleaver:

Q. Have you any power to make loans of any nature?—A. We have power to make loans on collateral security, guaranteed by certain kinds of bonds and stocks.

Q. Your loans are restricted to loans properly backed by collateral security?—A. Exactly.

By Mr. Fraser (Northumberland):

Q. Have you experienced any losses at all?—A. They have been very few and far between. We have had certain small losses although, as I say, they are very few and far between. If the chairman will allow me to do so, I should like to have this remark as an aside; and I would say that when Mr. Dandurand was our president some years ago, when we came out of the great depression, one of our clients said to me that we had foregone the right to use our symbol.

By Hon. Mr. Hanson:

Q. Use your what?—A. Our symbol. The president asked him what he meant and he said, "With your management, you should have the three balls at the door."

By Mr. Fraser (Northumberland):

Q. You have a well-managed institution?—A. Well, I think perhaps Mr. Tompkins can tell you about that. I would not like to say it myself.

Q. Modesty forbids.

The CHAIRMAN: Are there any further questions, gentlemen?

Hon. Mr. HANSON: What are the types of bonds and debentures mentioned?

Mr. PICARD: We do not get that at all over here, Mr. Hanson.

Mr. BLACKMORE: We cannot hear what you are saying.

By Hon. Mr. Hanson:

Q. This is just for the purpose of information for myself and I hope for others. What are the types of bonds and debentures mentioned, issued by any fabrique de paroisse or syndic, or parochial bonds?—A. According to our Quebec law, fabrique de paroisse bonds come ahead of municipal bonds by way of security. Heretofore we have only had the right to lend money directly to fabriques de paroisse. Now we are asking for the right to buy the bonds of these fabriques. These fabriques de paroisse have a lien on all the catholic property in their diocese, and they come ahead of even municipal bonds.

Q. All right.

By Mr. Cleaver:

Q. What is the amount of your share capital?—A. \$2,000,000.

Q. What dividends do you pay?—A. We have been paying 12 per cent and a bonus of 2 per cent for the last ten years.

Hon. Mr. HANSON: I wonder what the reaction would be to that.

The CHAIRMAN: Are there any further questions.

Mr. BLACKMORE: I should like to ask the witness what difference he considers to exist between his bank and the ordinary chartered bank.—A. Well, the savings Banks are looked upon as institutions peculiarly suited to people who do not do business. We do not lend money without security and our object in life is to safely invest the saving of the non-business people.

Q. Are we to gather from your remarks that you consider that the chartered banks lend without security?—A. Well, they lend without tangible security, without collateral security.

Hon. Mr. HANSON: They can lend.

The WITNESS: We consider that moral security is the best security you can get, but we have a special law which prohibits our lending money without having collateral security, no matter how good the moral security is.

By Mr. Maybank:

Q. What does that 12 per cent plus 2 per cent work out at effectively, over the past two or three years?—A. On our capital and our reserve, a little under 5 per cent.

Q. That is, the average purchaser of stock at the moment would probably get 5 per cent; 12 and 2 would turn out to be about 5 per cent.—A. He would get about 4.45 per cent.

By Hon. Mr. Hanson:

Q. What are the shares quoted at?—A. \$305.

Q. That is too high for me.

By Mr. Picard:

Q. You are not going in for that type of commercial banking?—A. No.

Hon. Mr. HANSON: Is there any provision—

Mr. PICARD: If we all talk together, we will not hear; I am sure of that.

Mr. BLACKMORE: Mr. Chairman, we have surely time enough to hear this; and when there are two questions being asked at the same time, we cannot hope to get the answers.

The CHAIRMAN: Just a minute. Mr. Hanson wanted to ask a question.

By Hon. Mr. Hanson:

Q. I was just going to ask you if there is any provision requiring you to hold any portion of your assets in Bank of Canada cash?—A. Yes.

Q. I know you do.—A. Yes, we are supposed to hold 20 per cent of our deposits in Bank of Canada cash or deposits in chartered banks, bills of the Bank of Canada or Dominion of Canada bonds, provincial bonds and so on.

Q. Yes.—A. Actually we have more than that.

Mr. BLACKMORE: I want to ask a question and I am particularly anxious that every question asked and the answer made should be in such a way that we will all be able to hear them.

The CHAIRMAN: We are all anxious to hear.

Mr. BLACKMORE: We have plenty of time to hear these questions one at a time.

The CHAIRMAN: Order, please. Mr. Cleaver.

By Mr. Cleaver:

Q. Do you make any loans under \$500 repayable in monthly instalments?—

A. All our loans are payable in instalments but not monthly instalments. We make call loans on the security of bonds and stocks, and they are supposed to be paid within a certain time.

Q. You make loans to small borrowers on security?—A. We are asking for that right. We have the right to make loans. We do make loans to depositors, small depositors, on security up to \$100.

Q. Do you receive repayment of those loans in monthly instalments?—A. As they wish. We expect them to be paid within a certain time but we do not insist on monthly instalments.

Q. What rate do you get on small loans?—A. From 3 to 5 per cent; 3 per cent against government bonds—when the minister is making a new call, a new loan—and 4 per cent after that against Dominion of Canada bonds; with other types of bonds we charge 5 per cent.

Q. On loans to small borrowers of less than \$500, \$500 and under, where collateral is put up by the borrowers?—A. It depends on the collateral, with Dominion of Canada bonds it is 4 per cent.

Q. I see, the interest rate does not depend at all upon the size of the loan nor on the name of the borrower, it depends on the type of collateral which he puts up when getting the loan?—A. Yes.

Q. Do you make any service charge or additional charge of any nature?—A. No.

Hon. Mr. HANSON: They are all loans to your own depositors?

The WITNESS: Yes.

Mr. CLEAVER: And I take it then, sir, that the reason why you are able to show such a large return on your capital is because you do not make any loans containing any element of risk, you make no loans which are not fully secured.

The WITNESS: Exactly, sir.

Mr. KINLEY: Do you confine your deposits to shareholders?

The WITNESS: No, to depositors.

Mr. KINLEY: To depositors?

The WITNESS: Yes.

By Mr. Gray:

Q. Are you limited by your act of incorporation—

The CHAIRMAN: Order, gentlemen, please, the reporters are having difficulty in getting down questions when a number of members speak simultaneously. I will have to ask you to repeat your question if you want it on the record, Mr. Gray.

By Mr. Gray:

Q. My original question was, are you limited by your act of incorporation to loaning to depositors, or is that a matter of principle that you have followed; and your answer was it was a matter of principle.—A. It is a matter of policy.

Mr. McNEVIN: Does your bank loan on school debentures and that type of security?

The WITNESS: Oh yes.

Mr. FRASER: You have really got a co-operative banking system.

Hon. Mr. HANSON: Oh no, it is a stock company.

Mr. KINLEY: I suppose the deposit your depositor has there is considered as having a lien against the loan; that is, you hold back his loan if he does not pay when he should?

The WITNESS: Exactly.

The CHAIRMAN: Are there any more questions?

By Mr. Blackmore:

Q. What percentage of reserve have you got behind your loans?—A. We generally have 10 per cent in cash in the Bank of Canada or in other banks or in bills of the Bank of Canada; most of our securities are in Dominion of Canada bonds. We consider that we have 100 per cent.

Q. But 10 per cent only is required?—A. More than 10 per cent is liquid, it is 10 per cent in bills of the Bank of Canada.

Mr. PICARD: And you consider your bonds as liquid.

The WITNESS: The bonds are liquid, yes.

Mr. BLACKMORE: What interest rate do you charge on loans, do you charge different interest rates?

The WITNESS: On Dominion of Canada bonds we charge 4 per cent.

Mr. PICARD: You mean on loans guaranteed—

The WITNESS: By Dominion of Canada bonds, we charge 4 per cent.

Mr. BLACKMORE: What about provincial bonds?

The WITNESS: Against provincial bonds $4\frac{1}{2}$ to 5 per cent and against stocks we charge 5 per cent. That is our highest rate.

By Mr. Blackmore:

Q. Do you loan on municipal bonds?—A. Sometimes, not very often.

Q. Where did you get your charter?—A. The charter is an old charter that was given to us in 1871 by the parliament of Canada.

Q. I thought you said you had been in operation since 1846?—A. Yes, but our present charter is dated 1871. We were in business in 1846.

Q. Where did you get your first charter?—A. Prior to that it was Lower Canada.

Hon. Mr. HANSON: It was then known as the province of Lower Canada.

Mr. BLACKMORE: In other words a province of the dominion of Canada at one time had the power to grant you a charter.

The WITNESS: Apparently.

By Hon. Mr. Hanson:

Q. In reference to that you are a dominion corporation and under section 3 of this Act your powers are to be renewed for a period of ten years; you are at all time subject to dominion jurisdiction within the ambit of your powers. Why should not your charter be perpetual? I ask you that question, and subject to review by parliament at any time? Is there any reason why you should not have, in accordance with the practice in England, a perpetual charter?—A. I am sure we would like it; but of course that is a question for parliament I think to decide. We would certainly like it very much.

Q. You are subject to a review of your powers and everything; but why should you have to have your charter renewed?—A. I do not see any reason, sir; unless parliament does.

Mr. BLACKMORE: Has your bank ever issued notes of its own?

The WITNESS: No, sir.

Hon. Mr. HANSON: It never had that right.

Mr. McNEVIN: Do you find that it is any great inconvenience your having to come to parliament to have your charter renewed?

The WITNESS: No.

By Mr. Ryan:

Q. All the changes in this bill have been suggested or made by the department?—A. Yes.

Q. They are not made at your request at all but by the department?—A. No except for one or two of them in here. So far our directors have been required to have 100 shares of stock in order to qualify as directors and we are asking parliament to reduce that to 50 shares or \$5,000 in view of the fact that the other banks up to date are only required to have \$5,000, and we thought ours should be reduced to \$5,000.

Q. That is the only suggestion you have made?—A. Practically, yes.

Q. All the others are from the department?—A. Yes—we also asked the right to buy certain types of high-class industrial bonds.

Mr. McNEVIN: Is your bank subject to the same inspection as the chartered banks?

The WITNESS: Yes, sir.

Mr. KINLEY: You are subject to the Bank Act?

The WITNESS: No, to the Savings Bank Act.

Hon. Mr. HANSON: To the Savings Bank Act, that is this Act.

Mr. BLACKMORE: Are you the only bank of your kind in Canada?

The WITNESS: There is another one in Quebec, La Caisse d'Economie de Notre Dame de Quebec.

Mr. BLACKMORE: And we have a Bank Act especially for the two banks?

The WITNESS: Yes.

Mr. McNEVIN: If I might be permitted, I would like to make this observation; I think your company has derived some benefit out of coming here before

the Banking and Commerce Committee to have your charter renewed because I think you have left a very good impression of your institution and that would be of advantage to it.

The WITNESS: Thank you.

Mr. FRASER: I would like heartily to endorse that and to add a word of appreciation as to the charming personality of the witness.

The CHAIRMAN: You have heard the compliment, sir, and it is unnecessary for me to pass any remarks.

By Mr. Blackmore:

Q. This may be an unfair question to ask because it looks for a lot of information without preparation. Could the witness give us off hand the qualifications which are necessary in order that a bank, a savings bank, should gain a charter; what sort of qualifications as a savings bank do you have to meet before you could obtain your charter with the province of Lower Canada?

—A. The Act requires that we should have a certain capital stock.

Q. What?—A. \$2,000,000 in our case; \$1,000,000 in the case of my friend from Quebec.

Q. And what are the terms with respect to directors?—A. We are required to have ten directors, six of whom form a quorum.

Q. Are any qualifications required of the directors?—A. The directors are required to have \$10,000 par value of stock.

Q. That is the only qualification?—A. That is the only qualification.

Q. Do they all have to live in Quebec?—A. No, sir, they could live anywhere.

The CHAIRMAN: Shall clause 3 carry? I understand that clause 2 has carried. We will go on with clause 3. Mr. Picard has an amendment on clause 3.

Mr. PICARD: That section 4 of the Quebec Savings Banks Act as set forth in clause 3 of bill 131 be amended by deleting the words "La Caisse d'Economie de Notre-Dame de Quebec" and substituting therefor the words "La Banque d'Economie de Quebec, The Quebec Savings Bank."

The reason for that is that the name has been changed by order in council P.C. 4930 dated June 27, 1944, which is to put the Act in accordance with the new name obtained by order in council.

The CHAIRMAN: The amendment is acceptable to the department. Shall the amendment carry?

(Carried)

Clause 4:

Mr. PICARD: I move that a new clause be inserted after clause 4 as follows: "That section 13 of the Quebec Savings Bank Act be amended by deleting the words 'one hundred' and substituting therefor the word 'ten'."

Now, the present clause 13 of the Act respecting certain savings banks in the province of Quebec reads as follows: "The capital stock of the banks shall be divided into shares of \$100 each". It is to reduce the shares to \$10 each that this is introduced.

Hon. Mr. HANSON: Is it mandatory or permissive in your amendment? Shall it be 100?

Mr. PICARD: Shall be divided.

Hon. Mr. HANSON: Why not leave it to the directors—may be reduced?

Mr. PICARD: The banks themselves are asking for it and the department has agreed.

Hon. Mr. HANSON: It will give them more leeway to say that they may do so and so.

Mr. PICARD: What did we do in the Bank Act? We reduced it; we did not leave it to the directors.

(Carried)

Mr. PICARD: I have a new clause. I move that a new clause be inserted after clause 4 as follows: "That subsection 2 of section 24 of the Act be amended as follows: the words 'sworn to' in the second line be deleted and the word 'acknowledged' substituted therefor."

That is also in accordance with the Bank Act. At the present time this clause reads: "Every such declaration shall be, by a person making and signing the same, sworn to before a judge or justice of a court of record . . .", and so on instead of "sworn to" the words have been changed to "acknowledged." This is chapter 14 of the original bill which this is amending. It is just a change of the words "sworn to" for certain documents to be replaced by the word "acknowledged." The same privilege has been given to the banks.

In the same section the words "justice of the peace" should be added after the word "court" in the fifth line. At the moment it reads: "Every such declaration shall be by a person making and signing the same acknowledged before a judge or justice of a court of record."

Now, in Quebec we have many justices of the peace, and we do not have justices of courts of record. We would want to include that so as to make it easier for the declaration to be made official.

The CHAIRMAN: Shall the amendment carry?

(Carried)

Shall the clause carry as amended?

(Carried)

Hon. Mr. ILSLEY: My understanding is that clause 4 has not yet been carried by the committee, and the amendments would add sections after clause 4; is not that correct?

Mr. PICARD: Yes. I am sorry that that happened. This will come after 4.

Hon. Mr. ILSLEY: Sections are added after clause 4, and one proposed amendment has been carried.

Mr. PICARD: Two have been carried.

Hon. Mr. ILSLEY: If they have already been carried I suggest that we carry clause 4.

The CHAIRMAN: Shall clause 4 carry?

(Carried)

Shall clause 5 carry? There are no amendments.

Hon. Mr. HANSON: There is some little change. What is the difference between the old section and the new one?

Mr. TOMPKINS: It is really to bring it into conformity with the Bank Act bill. That is all the amendment accomplishes.

(Carried)

The CHAIRMAN: Clause 6.

Hon. Mr. HANSON: In subsection 3 of clause 5 there is this question of third party claims.

Mr. GRAHAM: I think we are getting confused when speaking about clause 5; in that case you mean clause 5 of the original Act.

The CHAIRMAN: No, the bill.

(Carried)

Clause 7.

(Carried)

Clause 8.

Hon. Mr. HANSON: Have they got any inner reserves?

Mr. BLACKMORE: I think we should ask the witness if they have any inner reserves. How do they maintain confidence in their bank?

The CHAIRMAN: Clause 9?

Mr. BLACKMORE: Let us have the answer.

Hon. Mr. ILSLEY: That is a serious question. Let us have it answered.

The CHAIRMAN: On clause 8 Mr. Blackmore has a question.

Mr. BLACKMORE: Are there any hidden reserves?

Hon. Mr. HANSON: I did not say "hidden"; I said "inner".

Mr. BLACKMORE: You are sensitive on that word.

Hon. Mr. HANSON: Oh, no, not at all.

Hon. Mr. ILSLEY: The question is whether these banks have inner reserves. Now, what is the answer to that question?

The WITNESS: The answer is that the inner reserves we have are the inner reserves arising from the increasing value of our investments.

Hon. Mr. ILSLEY: That is, your investments are shown at less than their present market value?

The WITNESS: According to our report our investments are of the highest grade and appear in our statement at a figure somewhat lower than the official market quotations.

Hon. Mr. ILSLEY: Exactly.

The WITNESS: Those are our inner reserves.

Mr. BLACKMORE: I wonder if the witness would tell us whether or not people would lose confidence in his bank if he did not have any inner reserve?

Hon. Mr. HANSON: Yes.

Mr. JACKMAN: Yes.

The WITNESS: I would say definitely yes.

Mr. BLACKMORE: You were prompted to answer.

The CHAIRMAN: Oh, please.

Hon. Mr. HANSON: This gentleman is quite capable of thinking and speaking for himself.

Mr. BLACKMORE: Then why did Mr. Hanson prompt him?

The CHAIRMAN: Shall clause 8 carry?

(Carried.)

Clause 9. Shall clause 9 carry?

(Carried.)

Clause 10.

Dr. CLARK: There is an amendment.

Mr. PICARD: I think we differ slightly on clause 10, Mr. Chairman. Mr. Hanson, would you mind giving us a chance to speak?

The CHAIRMAN: Order, please.

Hon. Mr. HANSON: I think before we leave clause 9 Mr. Taggart Smyth might tell us the form of investments they are asking for authority to invest money in. It looks to me as though they are very high-grade industrial or real estate bonds. The committee is evidently running over that very rapidly.

The CHAIRMAN: We will reopen clause 9 if that is your desire.

Mr. TOMPKINS: They are limited to 5 per cent of the bank's deposit liabilities.

Hon. Mr. HANSON: I know. You are asking to invest 5 per cent of your assets in this type of bond mentioned in clause 9?

The WITNESS: Yes.

Hon. Mr. HANSON: I have no objection at all, but I want to call attention to it.

The CHAIRMAN: Do we understand that clause 9 is carried?

Some Hon. MEMBERS: Yes.

(Carried.)

The CHAIRMAN: Clause 10.

Mr. PICARD: On clause 10 I have an amendment. I do not know if it will be agreeable to the department. I think it is slightly different than the one they had in mind. It is that clause 10 be amended by deleting the words "120 per centum of" in lines 5 and 6 at the top of page 6. If this clause is carried as it is now it would mean that the banks would have to have as guarantee 120 per cent of the amount of the loans they are making. Anyone wanting a loan of \$100 would have to put up negotiable collateral for 120 per cent. The banks believe that it is too high, and they want to strike out the 120 per centum so that it would read, "Not less than the amount of the loan", which would mean 100 per cent of the loan. That was the law up to now. A section is added here to try and get them to get 120 per cent. That is the new section which is proposed here in this bill. Formerly it was 100 per cent. If this section is carried it would mean that for each loan of \$100 they would have to have collateral of \$120. We say that 100 per cent is enough, having regard to the figures submitted in our balance sheets for the past twenty years. My amendment is that clause 10 be amended by deleting the words "120 per centum of" in lines 5 and 6 which would mean 100 per cent collateral.

Mr. GRAHAM: Of course, I would say that the objection to Mr. Picard's suggestion is that while we have here the Montreal Savings Bank, other institutions of a like nature might be incorporated—

Mr. PICARD: There is only another one.

Mr. GRAHAM: There might be others who would seek incorporation.

Mr. PICARD: The two have worked, one for ninety odd years and the other one for sixty years.

Mr. GRAHAM: Suppose a new one starts up; is not the safe-guard an essential one, because the investment clause has been slightly enlarged by amendment. All securities have certain ups and downs and it strikes me that the added 20 per cent is not an unreasonable margin of safety, not against this particular bank, because its position amply guarantees it, but as against another person asking for incorporation and not having the position that your bank now has. It seems to me, without having given it much thought, that is not an unreasonable margin of safety when we are dealing with this type of institution.

Mr. PICARD: But on this type of collateral they are forced to get it is different than the ordinary banks.

Mr. GRAHAM: These securities fluctuate.

Mr. PICARD: They have government bonds.

Mr. GRAHAM: Industrial bonds now.

Mr. PICARD: Debentures, stock of corporations, and so on. One hundred per cent is more than any bank has ever been asked to have as collateral security. You will not find anywhere in Canada 120 per cent in any banking institution.

Hon. Mr. ILSLEY: I suggest that the deputy minister explain the reason for the provision.

Hon. Mr. HANSON: Is this asked for by the department or the banks?

Dr. CLARK: The department is asking for the clause as it stands. Having in mind that these are savings banks, holding the deposits of small depositors, we felt that in the case of loans of this kind, which are loans to stockbrokers and individuals secured by collateral, that where the collateral might consist of stocks of industrial corporations or stocks and bonds we felt there should be a reasonable margin of protection there to protect the bank. We are willing to add to this section a proviso clause reading as follows:

Provided, however, that if the collateral security consists of securities of the type described in paragraph (b) of subsection 2 of section 34 of this Act—

which means bonds issued or guaranteed by the dominion government or a provincial government—

the market value of such securities may be not less than 100 per centum of the amount of the loan secured thereby.

In other words, we contend that there should only be 100 per cent collateral where the loan is secured wholly by dominion or provincial direct or guaranteed bonds, but we think in respect of industrial stocks or bank stocks or other types of securities it is only reasonable that savings banks should maintain that extra margin there of 20 per cent.

Mr. PICARD: Then, Mr. Chairman, may I make a further suggestion? Instead of limiting your proviso to paragraph (b) why not also include paragraph (c), bonds or debentures of municipal corporations, and paragraph (d), bonds or debentures of school corporations which derive revenue from rates or taxes. Why should they be left out, admitting your precaution would be necessary in the case of stocks because the stock market may fluctuate? The business of these two banks is more or less in the way of loans guaranteed by bonds, church bonds, religious community bonds, school bonds, and so on. You are compelling them to get 120 per cent on such bonds that are better guaranteed than municipal bonds because they are protected by the property of the church and the religious community of the district.

Dr. CLARK: We felt that municipal bonds and school or church bonds were not as good security as dominion or provincial bonds, particularly not so good in this sense, that some of them have a very narrow market. If collateral in the form of municipal or school bonds, let us say, had to be sold suddenly in order to protect that loan they might have to be sold at a price five or ten points or more below the quoted market value.

Hon. Mr. HANSON: In other words, if I understand you correctly, you put this class of security in quite a different category?

Dr. CLARK: That is right.

Hon. Mr. HANSON: As not being so safe. It is a fact that many Canadian municipalities and school districts have defaulted in their bonds.

Dr. CLARK: That is quite true. They may be as safe in certain cases, but I do not think you can say that they have a market as active as dominion or provincial bonds. If you have to dispose of them quickly and in any considerable volume you may realize from them very substantially less than their prevailing current market value.

Hon. Mr. HANSON: I think that is quite correct.

Mr. BLACKMORE: I could not hear what Mr. Hanson said.

Hon. Mr. HANSON: I think that is quite correct. My experience with municipal bonds in the province of New Brunswick is that their principal market is local. There is always a ready market for limited amounts of

municipal bonds in the province of New Brunswick and I presume that is true elsewhere. They are in quite a different category from dominion and provincial securities.

Mr. PICARD: Would the Inspector of Banks or the Deputy Minister be in a position to tell us if at any time in the past they have experienced that situation, if either of those two banks have lost any money or have been in an awkward position because of the fact that they have accepted 100 per cent of collateral in other stocks than government of Canada bonds?

Dr. CLARK: I am not in a position to say as to that, Mr. Picard.

Mr. PICARD: We should be able to have that.

Dr. CLARK: I do not know what the experience in the past has been. But I think even though the past showed no instance of that sort, we ought to protect reasonably against risks in the future.

Mr. PICARD: Do you foresee any more risks in the future?

The CHAIRMAN: Order, please.

Mr. PICARD: I was asking the question if you foresee more risks in the future?

Dr. CLARK: No. The position that we take is that we are trying to develop a bill that gives a reasonable protection, a reasonable charter for savings banks. I would say that we hedge around the investments of savings banks much less strictly than they do in many of the states of the United States, in their laws governing investments by savings banks. We have been fortunate in the past to have two savings banks here under dominion charter, both of which have been exceedingly well managed. But we are passing a bill for the future, for the next ten years, and I think that you have to take into account what are reasonable precautions. Even though you may not have had a single loss in the past, that does not guarantee at all that there may not be losses in the future in respect of such loans.

Hon. Mr. HANSON: What is a reasonable precaution is a matter of judgment and experience. I should like to hear what Mr. Taggart-Smyth says about this. I am inclined to think that the bank's own experience would be the best guide for this committee, because we admit that this is a very strong, safe, well-run institution. Let us hear what the general manager has to say about this restrictive position.

Mr. MAYHEW: Mr. Chairman, I do not think that you can go on the past at all. We are passing into a different situation than we have had up to date. I think there have been municipalities in every province of Canada that defaulted over the period, and it was just fortunate that this bank did not happen to hold securities of that type. We remember quite well when the controversy was on that even the city of Montreal was not in any too good shape. I think the precautions that the department is suggesting in regard to this bill are perfectly well taken.

Mr. PICARD: Let us hear Mr. Smyth.

The CHAIRMAN: All right. Will you please come to the table again, Mr. Smyth?

Mr. TAGGART SMYTH: Mr. Chairman, we personally think the management should be given some leeway. We think this is a bit too restrictive. We have never lent money on bonds or any kind of stocks that were not absolutely good. We always exacted not 20 per cent but 33 per cent on stocks, and generally from 10 to 15 per cent on bonds. But we think that, whilst it is good to insist on security, which we always do in any case, to put it into the Act is a little bit too restrictive for us.

Mr. FRASER (*Northumberland*): Do you find any difficulty in lending your funds under present conditions?

Mr. TAGGART SMYTH: The demand for loans, as you know, in all banks is very, very poor now.

Mr. FRASER (*Northumberland*): In other words, you are suggesting to the committee that it is necessary, in order to maintain circulation of your funds—

The CHAIRMAN: A little louder.

Mr. BLACKMORE: We cannot hear what is being said.

Mr. FRASER (*Northumberland*): Mr. Chairman, I am asking the witness if he suggest that under present conditions it is necessary to have this enlargement of their powers in order to get their funds into profitable circulation.

Mr. TAGGART SMYTH: Well, we are not asking for any enlargement. We are asking to keep the Act as it was before.

Mr. PICARD: You see, Mr. Fraser, it was 100 per cent.

Mr. TAGGART SMYTH: It is restrictive, and we think it is unduly restrictive. That is all.

Mr. PICARD: The Act has always been, Mr. Fraser, 100 per cent. This present amendment by the department is to put it up to 120 per cent. They would like it to stay as it was before.

Mr. TAGGART SMYTH: Yes.

Mr. MAYHEW: You are widening the powers.

Mr. PICARD: No, we are not widening the powers. We have the same powers as we had before.

Mr. McNEVIN: Mr. Chairman, I rather lean to the view that as this bank has carried on with this 100 per cent proviso, and now it is asked to come to 120 per cent, it looks like a substantially increased demand. I wonder if we might not compromise. What would the deputy minister, the minister or the inspector of the banks say if that was put up 10 per cent or even 15 per cent? That look like a fairly substantial increase, in my opinion. But of course I am not conversant with the bond situation in the province of Quebec, and perhaps there is full justification for the demand.

Mr. FRASER (*Northumberland*): Mr. Chairman, based on the record and management of this institution, and the very small percentage of losses, does the deputy minister feel that this additional restriction is really necessary? Is he apprehensive as to new management?

Dr. CLARK: Mr. Chairman, I would feel that this restriction is desirable. I do not know that it will prove to be necessary. If these two banks are always managed with the same skill, care and caution as they have been in the past, perhaps there will be no reason for it. But I know that in 1929, 1930, 1931 and 1932, even the best securities, the best stocks and the best of bonds went down very rapidly.

Mr. FRASER (*Northumberland*): We all know that, to our sorrow.

Dr. CLARK: We all know that. It seems to me that in an Act that is designed to provide a charter, a sound charter, for savings institutions—holding small savings only and doing that business solely, really—it is desirable to set up your legal provisions in such a way that they are bound to give reasonable protection to the bank in the future, whether the management is as good or not quite as good as it is at the present time.

Mr. PICARD: Mr. Chairman, the deputy minister just spoke about that in 1929, 1930 and so on. It would be interesting to see how these institutions behaved at the time as compared with the other banks, the regular banks. Then you say this happened in 1929 and 1930. There was a revision of this

Act in 1934, and it was not deemed advisable then to force it up to 120 per cent, although we were revising the Act just after the period of depression. So that if there had been a real cause for anxiety, 1934 might have been the time to bring the change about. Now conditions are better. There is nothing for which to reproach these institutions. We cannot stop or paralyze their activities by forcing this 20 per cent more of guarantee of their collateral. The deputy minister said a moment ago that in the United States, in many states, they were more strict. I cannot see how you could be more strict in many ways in an institution of that kind. They have to have collateral up to 100 per cent, and their field of investment is very limited. So I do not see how such an added precaution is necessary.

Dr. CLARK: Having stock against a loan, in a time of difficulty in the stock market, your debtor's covenant may not be worth anything. You may be dependent solely upon the collateral that you have. It might have been wiser to have made this kind of change in 1934. I perfectly agree with that.

Mr. PICARD: I do not say it would have been wiser. I say if it had been necessary, then the need would have been apparent. You would have had an incentive to do it then. But now conditions are a little better. I wonder why it is brought about at this moment when it was not felt that it was needed in 1934?

Hon. Mr. HANSON: Well, it was not felt that it was needed in 1934.

Dr. CLARK: We made very few changes in the Act in 1934.

Mr. PICARD: I am sorry. I cannot hear a word.

Dr. CLARK: I say we made very few changes—we made deliberately very few changes in the Act in 1934. The present revision of the Act is designed to be a more adequate revision, a more comprehensive revision of the Act, to bring it more in accord with what we think it ought to be.

Mr. JACKMAN: I wonder if we could effect a compromise here; the department has suggested that they would be quite willing to have an additional sub-clause on this so that it would read Bank of Canada loans, Dominion of Government bonds, Dominion-Provincial guaranteed securities, under certain conditions but 100 per cent collateral only. I am not familiar with this institution, but looking at the section here limiting their right to invest their own funds they appear to me to be very restrictive and if it meets with the judgment of the department itself I would suggest that the subsection be amended to read that the bank be allowed to lend on collateral amounting to 120 per cent, except in the case of where the collateral is of a kind or nature in which the banks may invest funds, their depositors funds; in other words, it widens the exceptions you are willing to make. It seems fairly restrictive all right, and I am informed that if this revision were to be put in making the collateral for the loans 120 per cent it would prevent some business being done by the bank because under the Quebec legislation they apparently have the opportunity of loaning on municipal bonds as collateral but many of their perpetual borrowers would be reluctant to put up 120 per cent collateral, or even 110 per cent or 115 per cent. I think we must realize that these banks are peculiar in their nature doing business with a certain class of people, largely their own depositors and people of substance who prefer to borrow money against the bonds they hold and which they prefer for their own reasons to hold rather than to sell on the market and they put them up with their bank and get a loan against them. I believe it would meet the point if we were to put in an amendment there which would permit the banks to lend on any security in which it could itself invest and that would be all that would be necessary. Would there be any objection to extending the clause in the way I have suggested?

MR. PICARD: Would it not leave out an important type of security, would it not leave out the bonds of religious orders; or would they be included in that?

DR. CLARK: I would prefer, Mr. Picard, to suggest your amendment rather than Mr. Jackman's, since it is a little narrower.

MR. PICARD: Mine was just to meet the 120 per cent, my first amendment.

DR. CLARK: It would allow 100 per cent collateral only in the case of Dominion and provincial bonds, certain types of guaranteed bonds, municipal and school bonds, and these church and religious order bonds.

MR. PICARD: The church bonds are included in the new section 34.

DR. CLARK: No, that is of the school corporations.

MR. PICARD: We would have to add another section (e) to that or leave it as it was before, any other security approved by the treasury or bank head.

DR. CLARK: Mr. Jackman's proposal would lower it to industrial bonds and debentures.

MR. PICARD: Right, and would leave these out. I would like to include all the bonds of churches and religious orders and the others, if the department are agreeable to that. I am not objecting to that in section 34 which limits it to schools. As you know very well, many of the schools in Quebec are operated by religious orders and the bonds are put up by that religious order and the bonds are bonds which you will find pretty well up on any bond list throughout the province. They have always held up exceptionally well and have never been in default up until now.

DR. CLARK: There is a difference between safety and marketability, Mr. Picard.

MR. PICARD: Oh yes.

DR. CLARK: Sometimes you could have a perfectly safe bond and it may be quoted at par but if you wanted to sell any considerable block of them you might have to sell them at 90 or 95.

MR. PICARD: But these bonds are never issued in large blocks at all, they are seldom issued in amounts anything like \$200,000, they are for the most part small amounts. I could if the committee desired produce you a bond list for the province which would show that these religious bonds stand pretty well up on the list, well above municipal bonds and bonds of other types. They are considered generally to carry a better guarantee. They are considered as having a special value all over our province.

HON. MR. ILSLEY: I would like to understand the implication of these two amendments. Mr. Picard proposes that we leave the law as it was.

MR. PICARD: Yes, that is the first amendment I proposed, to leave as it was before; to delete the 120 and leave it at 100. That was my original amendment.

HON. MR. ILSLEY: Then Mr. Jackman proposed a less extensive demand. It seems to me that Mr. Picard had a second motion.

MR. PICARD: I would sooner have this one, if I can. I do want the question on my first amendment, and then if that does not carry we can have this one brought up.

HON. MR. ILSLEY: What is the second one again?

MR. PICARD: My second amendment was the same as that proposed by Dr. Clark, except that instead of limiting it to paragraph (b) which says government of Canada bonds, we would add (c), (d), and we want to have provision also for other bonds and then I would include religious orders and churches.

Dr. CLARK: You would accomplish that by adding a provisory clause; provided however that if the collateral securities consist of securities of the type described in paragraphs (b), (c) and (d) of subsection 2 of section thirty-four of this Act and paragraph (d) of section 35, the market value of such securities may be not less than one hundred per centum of the amount of the loan secured thereby. That I think would be your second amendment.

Mr. PICARD: Yes. I cannot agree. We did not get any question on my first amendment.

Hon. Mr. HANSON: Let us take them one by one.

Mr. PICARD: Let us have the question on my first amendment; that clause 10 be amended by adding the words, "120".

Hon. Mr. ILSLEY: I would accept the second one but I would not be disposed to accept the other. I am not a member of the committee, but that would be my judgment on the matter.

Mr. PICARD: All right, I will accept the second one as long as it covers all the debentures which I have outlined.

Hon. Mr. ILSLEY: That would be agreeable to me.

The CHAIRMAN: Then you withdraw your first amendment?

Mr. PICARD: Yes.

The CHAIRMAN: And you move, what is the amendment you move?

Mr. PICARD: That section thirty-seven of the Quebec Savings Banks Act as set out in clause ten of Bill 131 be amended by adding thereto the following proviso:

Provided, however, that if the collateral security consists of securities of the type described in paragraph (b), (c) and (d) of subsection two of section thirty-four of this Act, and paragraph (d) of section thirty-five of this Act, the market value of such securities may be not less than one hundred per centum of the amount of the loan secured thereby.

The CHAIRMAN: Shall the amendment carry: carried.

The CHAIRMAN: Are there other amendments?

Dr. CLARK: No more amendments.

Mr. PICARD: I have nothing on clause 10.

The CHAIRMAN: Shall the section carry as amended?
(Carried).

Section 11?

Mr. BLACKMORE: It is 1 o'clock, Mr. Chairman.

The CHAIRMAN: Well, let us try to go on a little bit and see if we get into any trouble.

Mr. PICARD: I move that subsections 2 and 3 of section 38 of the Quebec Savings Banks Act as set forth in clause 11 of bill 131 be deleted, and that subsection 1 of the said section 38 be amended by deleting the word "subsection" in line 43 and substituting therefor the word "section".

It is a technicality.

(Carried).

Mr. RYAN: What is the meaning of the words "the bank may, subject to the provisions of this Act, lend money without collateral security for the repayment thereof"?

Dr. CLARK: That would have given the Quebec savings banks the same power as the chartered banks would have been given under subsection 2 of section 91 of the Bank Act Bill—to make small unsecured instalment loans and charge rates up to 9½ per cent interest; in Mr. Picard's amendment that subsection is deleted; and there is one consequential change in subsection 1.

The CHAIRMAN: Shall section 11 carry as amended?
(Carried).

Section 12. There are no amendments.
(Carried).

Section 13. There are no amendments.
(Carried).

Section 14. There are no amendments.
(Carried).

Section 15.

Mr. PICARD: On section 15 I move: That section 57 of the Quebec Savings Banks Act as set out in clause 15 of bill 131 be amended by deleting the word "ten" on line 21 thereof and substituting therefor the word "fifteen".

That is a report that has to be transmitted to the minister, and the banks feel that their personnel is such that they would want five more days. I do not think the department is objecting.

Dr. CLARK: No. We accept that.

Mr. BLACKMORE: Mr. Chairman, I cannot get clear what is involved here.

Dr. CLARK: It gives them five more days to make their monthly return.

Mr. PICARD: It gives five more days to the bank to submit their report to the minister and the Bank of Canada; that is a return to the form set forth in the schedule of this Act.

(Carried).

The CHAIRMAN: Section 16. There are no amendments.
(Carried).

Section 17.

Hon. Mr. HANSON: This is a penalty clause, providing specific penalties for violations.

Dr. CLARK: It provides penalties that were not in the Act before and which I think should be in keeping with the provisions of the Bank Bill.

Mr. McNEVIN: Is there not a proposed change in section 16?

Dr. CLARK: No.

Hon. Mr. HANSON: What were the penalties before?

Dr. CLARK: There were no penalties—there were one or two.

Mr. TOMPKINS: Nothing like there should have been.

Hon. Mr. HANSON: I have no objections.

Mr. GRAHAM: Mr. Chairman, I was thinking of section 73: "If the bank knowingly invests moneys in any bonds, debentures, stocks or securities other than those authorized by this Act, the bank shall incur a penalty of \$50 for each and every day during which it holds such bonds, debentures, stocks or securities." I take it that it will be mandatory upon a court to impose that penalty for guilt. I can easily imagine a case where it would be a very severe penalty. I am not familiar enough with the application of this section.

Dr. CLARK: If they knowingly invest in something which they should not invest in under this Act.

Mr. GRAHAM: It might be even a technical guilt. You might do a thing knowingly and still there would be circumstances where you would not care to impose it; it might extend over a year or two years or three years.

Hon. Mr. HANSON: Before a bank incurs a penalty they have to show knowledge.

Mr. GRAHAM: Suppose they did; suppose it was a borderline case; the penalty could grow into a considerable amount.

Hon. Mr. ILSLEY: Not very much.

Mr. GRAHAM: Fifty dollars a day.

Hon. Mr. ILSLEY: That is not very much. How much is it for a year? That is about \$18,000.

Mr. PICARD: That should be considered now.
(Carried).

The CHAIRMAN: Section 18.

Mr. PICARD: In section 18 there is a technical change. I move: That the schedule to the Quebec Savings Banks Act as set out in clause 18 of bill 131 be amended by inserting as an item under "liabilities" after item 3 the following item: "Advances from and balances due to chartered banks."

That is to make the statement more informative and more practical.

Hon. Mr. HANSON: That is to show their liabilities to the chartered banks.

Mr. PICARD: Yes.

Dr. CLARK: It would follow item 3: "Advances from Bank of Canada, secured"; and this would come in immediately following.

Mr. FRASER (*Northumberland*): There is nothing wrong in that.

The CHAIRMAN: Shall the amendment carry?

(Carried).

Shall the section as amended carry?

(Carried).

Now we have section 19.

Mr. PICARD: In section 19 there is another technical change. Clause 19 is amended by deleting the word "July" and substituting the word "September."

The CHAIRMAN: Shall the amendment carry?

(Carried).

Shall the section as amended carry?

(Carried).

Shall section 1 carry?

(Carried).

Shall the title carry?

(Carried).

Shall the preamble carry?

(Carried).

Shall I report the bill?

(Carried).

Mr. PICARD: I move that this bill be reprinted, as amended, for the house.

(Carried).

—the committee adjourned to meet Tuesday at 11.30 o'clock, a.m.

August 1, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: We have before us bill 134, an Act to encourage the provision of intermediate term and short term credit to farmers for the improvement and development of farms, and for the improvement of living conditions thereon. Is it the desire of the committee to hear from the minister or the deputy minister as to the general nature of the bill?

Hon. Mr. HANSON: Yes.

Mr. TUCKER: One of the things that I hope will be dealt with, if it has not been dealt with when I happened to be away, is what intermediate farm or rural credit costs in some of the other countries of the world. I suggested at the outset of this committee that I thought this Banking and Commerce Committee should be made acquainted with the costs of intermediate rural credit in the Scandinavian countries and some of the other countries of the world.

Dr. CLARK: I could give some information on that, Mr. Chairman. In the United States, loans for purposes similar to the loans provided for in this bill are made to farmers by production credit associations. These are local associations obtaining most of their funds by borrowing from the federal intermediate credit banks. The intermediate credit banks borrow at short term in the money market, and according to the most recent information available, have been paying approximately $1\frac{1}{2}$ per cent per year on their funds. The margin between that rate and the rates charged by the production credit associations to the farmers, to their farmer members, is fixed at 3 per cent. Hence, the present rate of interest on production credit association loans is $4\frac{1}{2}$ per cent. In addition to that, the farmer-borrower must subscribe \$5 for each \$100 loan or part thereof, which brings the effective rate of interest to between $4\frac{1}{2}$ per cent and 5 per cent. In addition to that, however, there are other charges charged by the Production Credit Associations, such as filing fees and service fees, which vary somewhat with the size of the loan. According to calculations which I have seen, the total effective rate would be at least 5 per cent and in smaller loans would run, in certain cases, considerably higher than 5 per cent.

Mr. TUCKER: At that point, Dr. Clark, may I say that I did not follow you when you said that the charge to the farmers was 3 per cent, and then you went on to say something about $4\frac{1}{2}$ per cent. I did not follow that.

Dr. CLARK: No. I said that they got their money mostly from federal intermediate credit banks which turned over money to them which they borrow in the short-term money market at $1\frac{1}{2}$ per cent. Then the margin which the Production Credit Association, the local association, adds to the cost of the money to cover the cost of operations and so on, is 3 per cent. So that brings the initial cost to the farmer to $4\frac{1}{2}$ per cent. Then on top of that, the farmer must put up or must subscribe for stock in the association to the extent of \$5 for each \$100 loan borrowed. Then in addition to that, the association charges filing fees and service fees, which bring the rate up to 5 per cent and more, rising substantially above in certain cases where the loan is small and where, say, a \$1.50 service fee or a \$2 filing fee would be important in reference to the size of the loan.

Mr. TUCKER: Are these Production Credit Associations co-operative institutions?

Dr. CLARK: They are essentially co-operative institutions, I would say; yes.

Mr. TUCKER: Are they set up under federal law?

Dr. CLARK: Under federal law, yes.

Mr. TUCKER: By the way, have you copy of that law setting those institutions up?

Mr. M. W. SHARP: We have various pamphlets and information released by the United States government explaining the operations of these associations. If Mr. Tucker or the committee would like them, they can be made available.

Mr. TUCKER: I was wondering about this \$5 that is paid. Is that a share in those associations?

Dr. CLARK: Yes, that is a share in the association; it is a share of stock. It is like the scheme that we had originally with the Canadian Farm Loan Board, when a farmer-borrower had to subscribe a certain percentage—I think it was 5 per cent then—of stock in the board, every time he took out a loan.

Mr. TUCKER: And when the loan was paid off, would they redeem his share?

Dr. CLARK: I am not sure about that redemption.

Mr. M. W. SHARP: Yes.

Dr. CLARK: Here is a description from the eighth annual report of the Farm Credit Administration, 1940:—

A production credit association is a local co-operative credit organization of farmers and stockmen which operates under a Federal charter granted by the Governor of the Farm Credit Administration. Each member is required to own class B stock in the association in an amount equal to \$5 for each \$100, or fraction of \$100 borrowed. The class B stock is the voting stock. Its holders, therefore, elect the association's directors from their own number and the directors appoint the officers and employees. Two of the directors and the secretary-treasurer, who is the managing officer, serve as the association's loan committee, which passes upon loan application.

An association's capital stock consists, therefore, of two classes, A and B. The class A stock, which is non-voting, is held principally by the production credit corporation of the district, but may be held by other investors, and the class B stock, which is the voting stock, is purchased by members and those eligible to become members.

On December 31, 1940, the members owned \$17,434,352 of class B capital stock, or 21·4 per cent of the total capital, as compared with \$16,166,022, or 17·3 per cent, on December 31, 1939. The corporations' investment in the associations' class A stock on December 31, 1940, was \$63,282,787, and other investors held such stock in the amount of \$701,975.

Mr. TUCKER: Their loans are not in any way government guaranteed?

Dr. CLARK: No. They are not government guaranteed.

Mr. SLAGHT: Dr. Clark, I must confess that I have not had a chance to read this bill closely, but I am looking at the matter of the amount of the guarantee under section 4.

Dr. CLARK: Yes?

Mr. SLAGHT: Where the minister shall not be liable to pay a bank in excess of 10 per cent of the principal amount of the guaranteed farm improvement loans made by such bank. How does that work out? Suppose the loan were \$1,000 and the bank took a loss of \$100. Does the government pay all that?

Dr. CLARK: No. It does not work quite in that way. It works in this way. You take a given institution, one of the banks. Let us say it goes ahead and makes \$10,000,000 worth of these loans that are eligible under this Act for guarantee. Then the minister will pay losses on all of those loans to the extent of 10 per cent of the total of the eligible loans made by such bank. In other words, we would pay losses up to 10 per cent of the \$10,000,000 in the case I have taken, or \$1,000,000. That would mean that we would pay all of the losses on certain loans until that \$1,000,000 was used up. If their losses exceed 10 per cent of the total amount of loans that they make, the bank has to bear the whole amount of those losses.

Mr. SLAGHT: Yes.

Dr. CLARK: That is the way it worked in the Home Improvement Loans Guarantee Scheme that we had in effect some time ago.

Mr. SLAGHT: In other words, if there just happened to be a 10 per cent loss, the bank takes no share of it. The taxpayers pay it all?

Dr. CLARK: That is correct.

Mr. SLAGHT: That is hardly a share, one-tenth of the cost of the loan?

Dr. CLARK: On the assumption you made, that the losses will only be 10 per cent.

The CHAIRMAN: Suppose they were 50 per cent, Mr. Slaght?

Mr. SLAGHT: Of course, they may be greater. If it was 50 per cent, the government would pay 10 per cent and the bank would pay 40 per cent.

Dr. CLARK: That is right.

Mr. McNEVIN: Would you tell us the experience—I believe it has been brought out—with respect to the Home Improvement Loans?

Dr. CLARK: Yes. In the case of the Home Improvement Loans, we were authorized to guarantee loans up to \$50,000,000. You will remember that that Act was passed in 1937, and it was a time of unemployment. It was passed primarily as an unemployment measure. We were anxious to stimulate employment. We used all the pressure possible on the banks to make loans in order to create employment. In spite of the fact that that pressure was used and the banks probably made loans that they would not normally have made. Actually the total loans that we guaranteed were just under \$50,000,000; about \$49,975,000 worth or something like that. Our total losses up to date have been just a little over $\frac{3}{4}$ of 1 per cent; I think the figure is .80 per cent. The loans are nearly all paid off. There is perhaps one or two million dollars of the principal still outstanding so even if all of the rest of the loans were not recovered, if we did not recover a cent in respect of them, our total losses would be of the order of 2 or 2½ per cent, I believe. Actually we will recover a very substantial proportion of the amount of principal still outstanding so that the total loss ratio will be very low.

These were loans that were made primarily for the improvement of urban homes. The Act applied both to urban and rural homes but naturally most of the loans were taken in the urban areas. These loans were all for the improvement of homes. Under this scheme it is wholly rural, it is wholly loans to farmers, and it is for a good many purposes besides the repair or modernization of houses. The loans are to be made in the post-war period. Actually the home improvement loan experience was during a rising trend of business activity. We cannot be sure yet what the conditions of the next five to ten years will be but we felt that a guarantee of 10 per cent should be sufficient to encourage the banks to go actively out and make these loans freely to take care of all reasonable needs of farmers for the purchase of machinery and equipment, for rural electrification, for the improvement of houses and barns, for the building of labourers' cottages, for fencing, clearing and drainage work, and generally for all kinds of improvements specified under this Act.

Mr. SLAGHT: May I ask another question, and it is with some diffidence? In reading the Act I cannot find that we limit these loans to Canadian farmers. Am I right in thinking that the bank could loan \$10,000,000 to Cuban farmers and the Canadian taxpayers would guarantee 10 per cent of the loss?

Dr. CLARK: I would think the Canadian Act speaks in terms of Canada. I would, however, ask the lawyers to answer that question.

Mr. SLAGHT: I would be afraid that is not so, because under the charters our Canadian banks operate, as we have heard, not only in commonwealth countries, but they operate in Havana, Cuba. I take it the only restriction on their operations in Havana, Cuba, will be found either in the Bank Act or in this Act. If I am right in this I should not like to see us authorize the lending to Cuban farmers of money and the taxpayers of Canada take the break of the 10 per cent loss on that kind of business.

Dr. CLARK: Certainly nobody wants to do that, and if there is a possibility legally that that could be done I think we would suggest that the definition of a farm be limited to a farm in Canada.

Mr. SLAGHT: I think that is an improvement because while I have deference to your legal advisers it seems to me abundantly clear that it is not so confined under this Act and under the Bank Act.

Dr. CLARK: I was giving my own opinion. You must not blame the lawyers for that.

Mr. TUCKER: I understand from you that these cooperative associations will, of course, pay dividends to people who get money from them?

Dr. CLARK: They can do that. I believe the experience has been that they have not to any extent; they are not making sufficient money to pay dividends. There may, however, be a few cases.

Mr. TUCKER: They have only been in operation since 1940 so that—

Dr. CLARK: No, they were in operation before that. This just happens to be the 1940 annual report we have.

Mr. TUCKER: When was this Act passed? When did they start operating?

Dr. CLARK: My recollection is it was passed in 1933.

Mr. TUCKER: Have you anything in regard to the Scandinavian countries as to the cost of intermediate credit?

Mr. GRAHAM: Just before you leave that, in your computation of the cost to the farmer in the United States scheme you included as one of the items of cost the putting up by the farmer of the \$5 per \$100 loaned, or fraction thereof, but is that not an investment?

Dr. CLARK: It is an investment, and if these associations did pay dividends there would be some offset but even without that, Mr. Graham, with the service fees and the filing fees the rate would be 5 per cent or over.

Mr. TUCKER: Surely it is not suggested, Dr. Clark, that the banks are not able to charge against their borrowers under this Act the actual cost of registration of legal documents, is it?

Dr. CLARK: Under our Act?

Mr. TUCKER: Yes.

Dr. CLARK: Under our Act they cannot make any charge. Five per cent is the absolute maximum.

Mr. McNEVIN: I should like to make one or two observations. I think in Sweden many of these borrowers are perhaps in for a loan now, might be out for a few months or a year and in again. My understanding of it is in quite a large number of cases the \$5 deposit is left there as a continuing investment and covers loans over a long period of years.

Dr. CLARK: That would be the normal experience, yes.

Mr. McNEVIN: In connection with the comparison of the provisions of this Act with the principle involved under the home improvement guaranteed loans I should like to point out this, because I think it has a bearing. The home improvement loans were clearly designed to improve living conditions, to make those homes more comfortable, but there was not a possibility that investment would increase to any material degree the earning capacity of the vast number of clients that benefited by it. With regard to the loans guaranteed here as applied to farmers, the installing of electrical appliances and the acquiring of better livestock, I might enumerate quite a number of instances where the investment will increase the productive capacity of the unit. To my mind that is an added security. I do not believe that your guarantee will carry with it any great degree of hazard as far as the taxpayers are concerned.

Mr. TUCKER: In regard to the point just made about the limit of 5 per cent I would like to get that cleared up. I do not see that at all. It says "No fee, service charge or charge of any kind was by the terms of the loan payable to

the bank." That does not prevent the bank saying, "We require a mortgage from you; you have got to give us a mortgage and therefore you have got to pay the cost of providing it." That is not payable by the banks at all.

Hon. Mr. HANSON: In the normal course of events the borrower would have to pay the bank.

Mr. TUCKER: It is not included here.

Hon. Mr. HANSON: That is a necessary expense.

Mr. TUCKER: There are comparisons made with the United States system whereby the borrower has to pay these costs. I say he can be made to pay them under this Act. I want to have the matter cleared up of what this Act means.

Dr. CLARK: In the first place mortgage security can only be taken for loans over \$2,000 and running for more than five years. In all other cases no mortgage security will be taken.

Mr. GRAHAM: That is a land mortgage?

Dr. CLARK: Yes, a mortgage on physical property.

Mr. TUCKER: What about other mortgages?

Mr. GRAHAM: Chattel mortgages?

Dr. CLARK: There are certain loans under section 88. As to the rest of your point I would prefer that the lawyers speak in regard to that. I understood that even the mortgage charge would be paid by the bank, that they could not make an additional charge. That may be incorrect.

Mr. TOLMIE: I do not think we included in this paragraph (g) the cost of registering a land mortgage.

Mr. MAYBANK: In other words, it is open that it can be charged as Mr. Tucker says "now, there is the case where there is a chattel mortgage or a land mortgage, where that is required." Could it be required as a completely registered document and prepared at the expense of the borrower and deducted from the amount of the loan and consequently become an extra charge upon the borrower?

Mr. TOLMIE: Not if it were charged to the bank. If the bank put through the transaction and registered the mortgage they could not add that under this Act to their charge of simple interest at 5 per cent.

Mr. SLAGHT: The bank's solicitors always did the registration of the mortgage—perhaps, not the banks, but I mean money lenders practically always draw their own security on their own form.

Hon. Mr. HANSON: I do not think you can get away from the established practice that when you take a mortgage somebody has got to pay the costs and it must of necessity come out of the loan, otherwise you will find they would not lend.

Mr. MAYBANK: The whole point is just to make clear whether by the method Mr. Tucker mentioned, the 5 per cent will be augmented.

Hon. Mr. HANSON: It will have some effect.

Mr. GRAHAM: Mr. Tucker dealt with the question of the cost in the United States as compared with the scheme we are examining in Canada. Now, I agree with Mr. Hanson that if a charge of registration is incurred in my province it would cost roughly in the neighbourhood of \$5 to register a land mortgage and less to register a chattel mortgage with the clerk of the court—it is obvious that the bank must be reimbursed for that charge, in addition to what is considered to be a reasonable rate of interest. I am wondering whether in the United States that would not be true also? Would a loaning body there be entitled to the \$1.50 and to charge any actual disbursements made by the lending agency in perfecting its security?

Mr. MAYBANK: It is a case of which is the larger—the solicitor's charge in connection with this matter?

Mr. PERLEY: Does not section 9 make it clear?

Mr. TOLMIE: As I understand it the bank would attend to the legal details.

Mr. TUCKER: That "payable to the bank" should not be in there.

Mr. TOLMIE: They could charge the formalities of handling the transaction and registering the chattel mortgage. They would have certain costs certainly, but this clause 9 prohibited the banks from passing that charge on to the borrower. They are limited to 5 per cent simple interest per annum.

The CHAIRMAN: Gentlemen, may I say that the reporters are finding it very difficult to take down the conversations going on in a low tone of voice, and I would ask you to speak louder and slower.

Mr. TUCKER: I did not know I was talking so low. You interrupted me once before—

The CHAIRMAN: I was not speaking about you, Mr. Tucker; I was speaking to the committee as a whole.

Mr. TUCKER: It is strange you always do it when I am speaking. I am saying that this is not amply worded to prevent the banks from requiring security to be provided by the borrower. Why should it be said, "payable to the bank"? Why should it not be said "payable in respect of the said loan" to anybody, if you want to achieve that object. However what I wish to get at first is the cost of this intermediate credit in other countries, and I wonder if we could finish that and then go into these things clause by clause.

Hon. Mr. HANSON: Mr. Tucker's suggestion would be a better one if it was the intention of this bill that any expense incurred in connection with a loan shall be paid by the mortgagee or lender.

Mr. SLAGHT: I suppose we have to determine whether it is fair to ask the banks to include the disbursement which means disbursement to a lawyer for searching the title and for preparing the mortgage and registering it which sometimes runs into quite a little fee if there is a title to be searched—whether we should ask the banks to take that on and include it in the 5 per cent, or whether that will be discourage the purpose of this bill to get them to lend money. Offhand I would think that as is the case when borrowers go to a firm of lawyers—I know thirty years ago I had some knowledge of what was going on in a country town, and people would come to a firm of lawyers to borrow at 5 or 6 per cent on farm security out of an estate or trust fund. Now, the practice I knew of was the law firms charged 1 per cent for negotiating the loan, drawing the papers and putting the matter through, but they acted, of course, for the lender and the fee was always paid by the borrower. Let us consider a \$500 loan. A man comes in to get a loan and there has to be security under section 88 of the Bank Act—or possibly he wants a mortgage drawn on a piece of land—and a search is made of the title. If you are going to make the bank pay for searching the title and the legal fees and the expenses they would not make a \$500 loan at 5 per cent. That would be \$25 a year and during the first year it would be practically eaten up partly in law fees. I think if we keep the purpose of the bill in mind we should be careful about throwing this charge onto the banker.

Mr. PERLEY: We have been wandering all over the map. I am going to suggest that we take the bill clause by clause and then this discussion can take place upon the proper section. I wanted to ask some questions with respect to tenant farmers and movable equipment, and I think I can do it under the proper section. I think we all understand, in a general way, the principle involved.

The CHAIRMAN: I think your suggestion is a good one, Mr. Perley; is it the wish of the committee to proceed that way?

Mr. TUCKER: I would like to have a general statement from the deputy minister as to the cost of intermediate credit in other countries, and that may be a fair statement to start with as a basis for the bill.

Dr. CLARK: You asked a moment ago, Mr. Tucker, for the rates in Scandinavian countries. I am afraid I have not got those figures, but I can give you figures in regard to certain other countries. In the United Kingdom in 1928 the United Kingdom government passed the Agricultural Credits Act, one part of which dealt with short term credits. This enabled the farmer to create in favour of his bank a charge on his farming stock and other agricultural assets as security for the advances to be made by the bank. No rates of interest were established in the Act, and the Joint Stock Banks assessed each loan individually. However, the inherent prejudice amongst British farmers against the form of "charge" which was established as a basis for security of the loan, plus a variety of other factors, caused the new arrangements to be of slight importance. In the longer term field to provide for the bettering of farms and the productivity of the land the Lands Improvement Company was set up to make loans approved by the Minister of Agriculture to be repayable as an annuity extending over forty years.

Mr. TUCKER: When was that done, Dr. Clark?

Dr. CLARK: In 1928. Continuing:—

According to our most recent information available, loans made by the Lands Improvement Company are at 3-1/4 per cent. The 1928 Act also established the Agricultural Mortgage Corporation. Where the proceeds of loans made by the corporation were to be used for permanent improvements, the period could not exceed 60 years, and the rate of interest was 6 per cent. Where the loan was to discharge an existing mortgage or to purchase a farm, the term could not exceed 60 years and the rate was 5-1/2 per cent per annum.

New Zealand

The Rural Intermediate Credit Act provides for loans to farmers for terms not exceeding 5 years. The rate of interest charged by the Rural Intermediate Credit Board to individual farmers is 5 per cent per annum, this being also the discount rate. In the case of loans to co-operative rural intermediate credit associations, the rate is 4-1/2 per cent, so that associations may be in a position to make advances to their members at 5 per cent.

Australia

Detailed knowledge of the rate structure in the various states in the Commonwealth of Australia is not available. However, the Rural Bank of New South Wales may be taken as typical. Its functions include the provisions for advances to enable farmers to develop and carry on their holdings. While there were no statutory limitations placed on overdraft advances, in practice advances are limited to two-thirds of the bank's valuation of the security offered. There is no distinction in the rates of interest chargeable as between long term and overdraft advances, the present rate being 4-3/4 per cent per annum.

I think that is about all the information that I have.

Mr. TUCKER: You have not anything in regard to the cost of credit to the collective farms in Russia furnished by the state banks there?

Dr. CLARK: No. I have not such information.

Mr. McNEVIN: Clause 1.

The CHAIRMAN: Clause 1 is the short title. Shall we allow that to stand?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Clause 2 is the interpretation clause.

Mr. PERLEY: Mr. Chairman, speaking on this clause, I notice that farm collective equipment is not included.

Mr. McNEVIN: There is an amendment to paragraph (b).

Mr. PERLEY: Oh, I did not know that. Then in (b) are movable granaries. Here I might say that that would enable, I would presume, a tenant farmer, if he found that he had not enough granary equipment on the farm he had rented, to build a granary, as long as it was movable and at the end of his term of lease he could remove it.

Dr. CLARK: That is right.

Mr. PERLEY: What I wanted to say was that this is something that has to be watched. A lot of these tenant farmers are changing, as Mr. Graham, Mr. Tucker and others know who draw these laws. They are moving around quite a bit and they might get into a little trouble and might have some difficulty, when they move to another farm, in taking that bin with them. Of course, the security would follow the bin.

• Hon. Mr. HANSON: If it was not a fixture.

Mr. PERLEY: It will follow the settler and the bin.

Hon. Mr. HANSON: That would be true if it was not a fixture. But if it became a fixture, it would not.

Mr. PERLEY: The same thing would apply to electrical equipment and it is included, I think, in the other section. I might say that I had a little experience in that myself. A tenant farmer of mine put in very elaborate electrical equipment; and while part of it was removable, he did attach part of it to the building. When he came to move away, I wanted to buy the stuff, and he would not sell it. I offered to buy, but he just tore it down and in the process of tearing it down he did a lot of injury to the building.

Dr. CLARK: The intention of the bill is that loans for equipment that is attached to the real or fixed property should be made to the owner of the land and loans for movable equipment—farm implements and what not—should be made to tenants.

Mr. MAYBANK: There is a point here—

Hon. Mr. HANSON: In law, it would depend entirely on the character or the fixation. If it can be detached without doing any damage to the freehold, you can take it away.

Dr. CLARK: Yes.

Hon. Mr. HANSON: I have fought it out in the courts.

Dr. CLARK: That is correct.

Hon. Mr. HANSON: I could give you the cases.

Mr. MAYBANK: There is a point here with reference to the use of the words—it is about the thirteenth line—"for use on a farm." I can tell you of an incident that has come to my notice.

Mr. SLAGHT: Where is that, Mr. Maybank? In (b)?

Mr. MAYBANK: Yes, that is in (b). I could tell you of an incident that came to my notice, of a man with a movable granary, and using it not on his farm but a short distance away from his farm and in connection with it; and again two or three persons using a granary in connection with their farm but not precisely on their farm, nor did they ever have any intention of using it on the farm, but nearer to the railroad. I can conceive that might quite often be the case; yet it is a farm implement in the ordinary parlance.

Dr. CLARK: It is for use in the business of farming.

Mr. MAYBANK: Yes, I know. The thing that I am talking about is for use in the business of farming, but it is off the premises. I should like to suggest that you consider instead of that expression "on or in connection with a farm or farms." I do not want to move an amendment to this section without full consideration, because it is certainly a fact that people sometimes add words to a law and while it looks all right at the moment, yet it affects some other part of the law. I do not want to go to the length of moving an amendment.

Dr. CLARK: If you follow the wording further, Mr. Maybank, you will find "and, without limiting the generality of the foregoing includes" certain things, including movable granaries.

Mr. MAYBANK: I realize that movable granaries are included; but I am suggesting that it looks to me as if it would be movable but always "on a farm."

Dr. CLARK: No, I don't think so. I do not think that is the interpretation, Mr. Maybank.

Mr. MAYBANK: I do not think it is the intention.

Dr. CLARK: It would not be necessary under this wording, I think. I mean, I think a loan could be made on a movable granary, even though it was not on the farm.

Mr. MAYBANK: Let us see if you are right about that. An agricultural implement means an appliance—not usually affixed—for use on a farm.

Hon. Mr. HANSON: It is only descriptive, is it not?

Mr. MAYBANK: All right. Then we come to, "without limiting the generality of the foregoing includes," and it includes certain kinds of things which are named; but each one of those things which is named is for use on a farm. That is to say, that does not in any way cut down the meaning of the words or phrase "on a farm." It only says that we want you to be sure to understand that we mean harrows, we want you to be sure to understand that we mean incubators, but they still are "on a farm."

Dr. CLARK: What is the wording that justifies you in saying it is for use "on a farm"? It includes trucks for carrying the products of agriculture, which would be carrying them off the farm.

Mr. MAYBANK: Yes.

Dr. CLARK: I do not see the wording there.

Mr. MAYBANK: I know; those are used "on a farm" and run off. That is quite true. But the thing that I was speaking of was something which is never on a farm.

Dr. CLARK: I do not see any words that would limit us to this kind of implement actually on the farm. I do not see that there is any word that is that restrictive.

Mr. MAYBANK: You take a thing that is simply never on a farm, like a man's granary which he lifted over closer to the railway tracks.

Dr. CLARK: Yes.

Mr. MAYBANK: That is the type of thing I mean.

Dr. CLARK: I think that a loan could be made on that.

Mr. MAYBANK: I do too.

Dr. CLARK: I think a loan could be made for such a movable granary.

Mr. MAYBANK: I certainly think it is the intention to cover that, but I am concerned about it.

Mr. PERLEY: Mr. Chairman, may I say—

Mr. MAYBANK: May I just conclude for a moment. I am a little afraid of a bank manager feeling that there is some difficulty there and refusing a loan in such a case. I would think that it could be covered by an expression, "On or in connection with a farm."

Hon. Mr. HANSON: May I ask a question? Are not the words "For use on a farm" merely descriptive of the character, class, or kind of thing on which the loan may be made? It does not refer to the situs.

Mr. MAYBANK: I do not think there is any doubt about that being descriptive but on the other hand they do not describe the thing which is never on a farm.

Mr. PERLEY: May I have a word with respect to these moveable granaries? For instance, a landlord rents a farm. Maybe he has to put in some new equipment on it, build a few bins to suit the tenant. The loan is made on that moveable bin. He changes tenants. I know of cases where that has occurred. Then the landlord moves that bin into town. He was residing in town and he moves that bin into town and uses it there to take his share of the crop from the tenant and put it in there. I know of other cases where the tenant has moved bins off the farm and brought them into town. They have stored the grain there because in the wintertime they were a long way out from town and could not get in. They wanted to have that space to store it. This matter of moving bins around is going to be quite a problem if we do not be very careful about it. How would it affect a landlord who was living on a farm and moved his bin into town?

Mr. MAYBANK: Mr. Chairman Mr. Jean has been good enough to suggest a different amendment than the one I mentioned a moment ago. It is to cross out the words, "For use on a farm", and then you would have it reading this way, "Appliances and machines, of any kind not usually affixed to real or immovable property, and vehicles for use in the business of farming." Then you have adequately covered the situation by leaving out those words, "For use on a farm." There is more of this business of having implements for use in connection with farming but never actually on a farm than might possibly be apprehended by persons distant from western Canada. At the moment I cannot see any need of stressing the words, "For use on a farm". The thing we are aiming at is to help the business of farming. I think it would be better to play safe there and not have loans refused for that technical reason.

Dr. CLARK: I do not think there is anything in those words that would prevent loans being made on the type of thing you have in mind. In our descriptive and promotional literature we could make it very clear to the bank managers.

Mr. MAYBANK: You want to remember you are not going to be the man behind the desk who is passing on the loan. An individual in some small town may be a pernicky technical man.

Dr. CLARK: We will issue literature and regulations on that to bank managers. We will have inspectors and other officers supervising this.

Mr. MAYBANK: Why not make it clear by striking out those words? Why give some pernicky bank manager the opportunity to get technical on that?

Mr. TUCKER: There is a distinction drawn, as you will see, between vehicles which are available for use in the business of farming and those which must be used on a farm. Any judge interpreting that would say, "Parliament must have had something in mind in making a distinction between vehicles which are all right if they are used in connection with the business of farming and other articles which must be used on a farm." Mr. Maybank undoubtedly is right.

Dr. CLARK: It goes beyond that, you see.

Mr. TUCKER: The proper interpretation I think is entirely as Mr. Maybank points out. That does not extend it. It just illustrates it; it does not extend it.

It just simply says "without affecting the generality of the foregoing" but I submit that does not carry you any further. I do not see why the suggestion made by Mr. Jean should not be accepted and just say that all these things must be used in connection with the business of farming.

Mr. PERLEY: A farmer may have a truck and be using it for hauling his own grain and his own stock, but I know lots of people are hauling for their neighbours ten or twelve miles away. They are taking stock to the town to market and they are bringing grain in. They are using that truck in the business of farming.

Mr. MAYBANK: There is a distinction between what you pointed out to me, Dr. Clark, and the case I mentioned. You spoke about the case of a truck, and a truck, as you were pointing out, is used off a farm, but a truck is used on a farm. O.K., that is your truck; that is covered by the other thing which is on a farm. O.K., that is your truck; that is covered by the other thing which is never used on a farm but is to be used strictly in connection with farming, such as the case I mentioned, is quite different. I do not really think it is covered here. Of course, you know your descriptive literature cannot cover it.

Mr. SLAGHT: I agree with Mr. Maybank. To bring it to a head I am going to make a suggestion, as Dr. Clark does not want to part with the phrase, "For use on a farm."

Dr. CLARK: My legal adviser is willing to have that dropped. I would think I could say on behalf of the minister that he is willing to have that phrase dropped, "For use on a farm." The only thing that I see offhand is that may mean amending the wording in the bank bill, a corresponding change in the definition of these things in the bank bill.

Mr. MAYBANK: I would be quite content to have that. Let us look at it this way. It looks as if we are in favour of dropping that phrase. Let us bring it up again.

Dr. CLARK: We could probably have it brought up this afternoon.

Mr. SLAGHT: I have an amendment here which I think will suit both. Add in the third line of clause (b) of section 2 after the word "on" the words, "or in connection with." Then it reads, "For use on or in connection with a farm." That leaves you the phrase that the draftsman put in originally. A man might have a truck, for instance, at his home in a village and have a farm two miles out of the village. He might keep the truck in the garage at the home in the village every night but use it in connection with his farm. I believe that covers it.

Mr. MAYBANK: Just add to your expression, "or farms."

Mr. TOLMIE: The singular includes the plural.

Mr. SLAGHT: I do not think that is necessary.

Mr. McNEVIN: It says, "For use on a farm, and vehicles for use in the business of farming." That is covered there, in my opinion. After all, this legislation is designed to provide short and intermediate term credit for farmers. There is only one item you can find any question about whatsoever, moveable granaries, and I think that the clause is ample to cover moveable granaries. I do not think that the intention of the bill is to make loans on granaries that may be moved into town and used for garages, woodsheds and everything else. So far as I am concerned I think the Act as it stands is quite broad enough.

Mr. SLAGHT: The word "trucks" might cause trouble. I am going to move that after the word "on" at the end of the third line in clause (b) of section 2 the words, "or in connection with" be added.

Dr. CLARK: I think we could accept that.

Mr. McNEVIN: That is making a change I do not think is necessary.

The CHAIRMAN: Shall the amendment carry?

(Amendment carried).

Mr. McNEVIN: I have an amendment. I move that paragraph (b) of clause 2 of bill 134 be amended by inserting the words, "washing machines" between the words "churns" and "spraying apparatus" on lines 19 and 20 and by inserting the words "and cooking" between the words "heating" and "appliances" on line 21, and by inserting the words "or use in the farm home" between the words "operations" and "of a kind" on line 22 thereof.

Dr. CLARK: That will bring this into line with what we did in the Bank Act.

(Amendment carried).

Mr. TUCKER: Are we amending subsection (h) where it says, "the purchase of agricultural implements"; and putting in also "household equipment", or something like that?

Mr. SLAGHT: I have an amendment I wish to offer to subsection (h).

Mr. CLARK: It is in the broader sense now.

Mr. SLAGHT: I propose this amendment to subsection (h) in order to make it clear that the money may be loaned only to a Canadian farmer on the security of a Canadian farm:—

That clause H of section 2 be amended by adding before the word "farmer" in the second line thereof the word "Canadian", and by adding before the word "for" in such second line the words "on the security of a Canadian farm."

It will then read:—

Farm improvement loan—

and that is the term you will find down in section 3 where we use the operative language with regard to what we will guarantee—

Farm improvement loan means a loan made by a bank to a Canadian farmer on the security of a Canadian farm for the purpose of financing—

Dr. CLARK: There are one or two points I would like to ask about. First the phrase "on the security of a Canadian farm." Now, that implies that these will all have mortgage security behind them; that there will be mortgages on the real property. Now, that will not be true in all cases. Is it not also true that there might be some ambiguity or doubt as to what "Canadian farmer" meant? He might be a Canadian with a farm in the United States?

Mr. SLAGHT: That is why I put the second part of the amendment in.

Dr. CLARK: Would it not be easier to amend clause (f) by saying, "farm means land in Canada used for, etc."? I would be prepared to accept that.

Mr. SLAGHT: If you think that covers it. I do see trouble in what you have pointed out about the wording about the second part of the amendment.

Dr. CLARK: Yes, a Canadian farmer might be a Canadian farming in the United States.

Mr. SLAGHT: Yes. If you designate the land, that it must be Canadian land, that should do it.

Dr. CLARK: "Land in Canada." I think that would cover it.

Hon. Mr. HANSON: Of course, it was never the intention that the bank would make loans to a man farming in the United States.

Mr. SLAGHT: Oh, they might do it in Cuba.

Hon. Mr. HANSON: Oh, no.

Mr. SLAGHT: In 1926 Canadian banks had on loan in foreign countries, outside of Canada, \$511,000,000 and on loan in Canada \$1,100,000,000. In other words, they had 50 per cent as much money on loan outside of Canada as in Canada.

Mr. TOMPKINS: Which was financed by their deposits outside of Canada.

Mr. SLAGHT: Financed, you say; but the obligation was a Canadian obligation.

Mr. TOMPKINS: They didn't use Canadian money to finance it.

Mr. SLAGHT: If those loans went wrong, the fact that they were deposits in Cuba in that branch did not help you a bit.

Mr. TOMPKINS: I think you are including the call loans outside of Canada in that total you mentioned.

The CHAIRMAN: Gentlemen, we have disposed of the Bank Act. We have an amendment suggested for clause (f).

Mr. SLAGHT: I am withdrawing my amendment.

The CHAIRMAN: We are now on clause F.

Dr. CLARK: Add the words "in Canada" after the word "land" in line 5. (Carried).

Hon. Mr. HANSON: Mr. Chairman, it is 1 o'clock, but I may not be here this afternoon and I wish to ask Dr. Clark a question relating to section 3. Is it the intention of the government that the banks shall be guaranteed only against ultimate loss of these loans, or are we going in partnership with the banks and taking our loss and taking it first?

Dr. CLARK: I would say it is against ultimate loss.

Hon. Mr. HANSON: I think that should be made clear.

Mr. TUCKER: When are we going to calculate the ultimate loss? This Act is to stay in existence indefinitely, is it not?

Dr. CLARK: For three years or until the amount of \$250,000,000 is used up, Mr. Tucker.

Hon. Mr. HANSON: I ask that for the reason that I think the federal treasury only ought to sustain the burden of ultimate loss. I recall very vividly the time when the banks were asked to take over the Manitoba Savings Bank deposits; they wanted a guarantee against loss. It got down to a question of whether it should be ultimate loss or loss. It was put in the order in council that it should only be ultimate loss, and I think that is safe.

Dr. CLARK: On page 5 in paragraph I of section 6 the regulations are, "to prescribe the method of determination of the amount of loss sustained by a bank as the result of a guaranteed farm improvement loan." The way it works is that when we do pay the loss in respect of a loan the bank will assist to us security for the loan.

Hon. Mr. HANSON: That is the right of subrogation. Anybody who will guarantee a loan is entitled to that. That does not go to the point I am bringing up. All I want to suggest is that if that is the intention of this bill it should be made abundantly clear that the treasury is only sustaining ultimate loss.

Dr. CLARK: During the noon hour I will see that that is given consideration.

The committee adjourned to meet again at 4 o'clock this day.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

Dr. CLARK: Mr. Chairman, with the consent of the committee, I should like to revert to paragraph (b) of subsection 2. I think, with the changes that we have made, it would be better, smoother and clearer, if in line 20 we deleted the word "and" before "incubators", inserted a comma after "incubators", deleted the next "and"; so that the line would then read, "cream separators, churns, washing machines, spraying apparatus, incubators, milking machines, refrigerators, and heating and cooking appliances for farming operations or for use in the farm home of a kind not usually affixed to real or immovable property." That makes it a little bit smoother.

The CHAIRMAN: Do you so move, Mr. McNevin?

Mr. McNEVIN: Yes.

The CHAIRMAN: Is the pleasure of the committee to so amend the section?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Are there any further amendments to section 2?

Some Hon. MEMBERS: Carried.

Mr. GRAHAM: Was the amendment to (f) formally carried?

Dr. CLARK: That was carried. That was the amendment inserting the words "in Canada". It was carried.

The CHAIRMAN: That was carried. Shall the clause or section as amended, carry?

Some Hon. MEMBERS: Yes.

Mr. RYAN: Section 6, deals with repairs, alterations and additions to any building or structure on the farm; in regard to the Housing Act that will be brought in, a farmer would have the right to come under the Housing Act too for the building of a home?

Dr. CLARK: Yes. Under the Housing Act the farmer will have the right to borrow from a lending institution.

Mr. RYAN: Yes.

Dr. CLARK: In the ordinary way on mortgage security for the construction of the house. But under this Act, we also give the right for the farmer to get small loans for the repair or modernization of his house, or for the building of a house if it does not cost more than \$3,000 or for building labourers' cottages or anything like that.

Mr. RYAN: If it does not cost more than \$3,000?

Dr. CLARK: More than \$3,000. The maximum loan that can be made under this bill is \$3,000, and the maximum term is ten years. In certain cases it will be more convenient for the farmer to borrow locally, from his local bank.

Mr. RYAN: Yes.

Dr. CLARK: In other cases, for a large loan where mortgage security is essential, he could go to an ordinary mortgage lending institution.

Mr. RYAN: He has the advantage of both?

Dr. CLARK: He has the advantage of both. There is an overlapping to some extent.

The CHAIRMAN: Section 3. Are there any amendment proposed?

Dr. CLARK: No.

Mr. TUCKER: Is this section 3?

The CHAIRMAN: Yes. Just a minute. Shall clause 2 as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Then section 3.

Mr. TUCKER: In regard to section 3, Mr. Chairman, I should like to ask Dr. Clark in regard to section 1, subsection (f). Apparently that provides "the rate of interest charged by the bank on the loan did not exceed five per centum per annum simple interest as long as the borrower was not in default." From that I take it that the banks could require loans, say of \$1,000, to be paid within three months at 5 per cent interest; and then if the loan was not paid in full, at the expiration of three months, I take it that at least 6 per cent could be charged. It might be that, as we have legislated specifically in this matter as to the rate of interest that was chargeable, they could charge 6 per cent on practically all outstanding loans. I am just wondering if even the 6 per cent limitation would apply that we have in the Bank Act and if with that provision providing that the banks can step up the rate by making provision that the loan shall be repaid at an early time, and then the government guaranteeing this, they could not probably charge at least 6 per cent on practically all of the outstanding loans. The reason I mention that is this. We have had certain experience in western Canada. The banks are not supposed to take security on land for their loans; but what they almost invariably do is that they make a loan in the first instance and ask the farmer to leave the title to his land as a sort of evidence of good faith. Then the moment the loan becomes overdue, they require him to give a mortgage to secure that overdue loan. In that way they have avoided, really, the effect of the Bank Act in forbidding the taking of security on land in respect of loans. If they will do that in regard to that particular provision of the Bank Act, I submit that the enterprising banks of this country, some of them if the section is not amended will get around that 5 per cent provision just as easily as if it were not there. I submit that surely we can protect ourselves or the farmers who are going to get money under this Act more adequately than that.

Dr. CLARK: I think the answer to that, Mr. Tucker, is that we will prescribe by regulation for the term of the loan which is to be made for loans that come into various categories or classes. You will see provision in the bill for dividing up loans into categories classified by size, purpose and so on. We will have to work out carefully a number of classes of loans. We would, for instance, prevent the banks from making a loan for three months which could not be paid off in the three months and would have to be renewed at the end of the three months. The idea is to get a term of loan and terms of repayment of that loan that can be fitted into the borrower's income and at the times at which his income receipts will come in. We will do that kind of thing by regulation; and if you have a \$1,000 loan, for instance, where, owing to the credit of the farmer and the nature of his farming operations, it is improbable that the loan could be paid off in less than a year, we will provide for a one-year loan in such a case, with repayment tied in to the probable receipts of his income during that one-year period.

Mr. TUCKER: Dr. Clark, what objection is there to having—

Dr. CLARK: We can also provide, of course, for the rate of interest on default.

Mr. TUCKER: Why not put it in the Act by striking out "as long as the borrower was not in default?"

Mr. PERLEY: That is what I was going to suggest, just strike out those words.

Dr. CLARK: You may need some degree of flexibility there. If you get a rigid provision in the Act, in experience you may run up against certain condi-

tions which may make the rigid provision impractical or unsatisfactory in the interests of everybody, and I would think it would be better to have it in the regulations where we can amend it as conditions seem to require. As I said this morning we will have inspectors and a staff who will be supervising this kind of loan to see that the banks are carrying out the intentions and purposes of this Act in a reasonable and satisfactory way.

Mr. TUCKER: Is it not clear that if we pass it as it is to-day we contemplate as a parliament if they get in default they can be charged more than 5 per cent? As far as I am concerned I think when they have got a government guarantee that on no occasion for loans like this should farmers pay more than 5 per cent. My own feeling is that the top limit should be 4 per cent but if we are going to put it through at 5 per cent let us make sure they cannot charge more than 5 per cent. The very fact that we put it in that they can charge 5 per cent as long as he is not in default implies that more can be charged once he goes into default. My own feeling is that the only time that a farmer who goes into debt for something like this will go into default is when conditions arise such as crop failure. When the banks are being guaranteed against loss they should surely be satisfied with 5 per cent and not want more than 5 per cent. As far as I am concerned I am very very much opposed to them being given power to raise their interest rate when we are guaranteeing the loan.

Mr. McNEVIN: Mr. Chairman, does this element not enter into it, that you ought to offer some inducement for the farmer not to get into default? I have that in mind.

Dr. CLARK: I would think myself from such experience as I have had in lending that it is a usual and sounder thing to have a slightly higher interest rate in certain cases, at least, when the borrower does get into default to give an incentive to pay up on time. Not all of the cases will be cases of the type you have in mind, Mr. Tucker. There will be cases of deliberate failure to pay on time. They will leave the loan outstanding. I think the further point should be noted that paragraph (h) of section 6 on page 5, the section providing for the Governor in Council to make regulations, reads as follows:—

To prescribe in the event of default in the repayment of a guaranteed farm improvement loan, the legal or other measures to be taken by the bank and the procedure to be followed for the collection of the amount of the loan outstanding, the disposal or realization of any security for the repayment thereof held by the bank, and the rate of interest to be charged on payments overdue.

If it gets into default we come in then. It will be us rather than the bank.

Mr. SLAGHT: But in the practical aspect of it are you going to come in? How in the world is the Department of Finance over the length of this dominion going to keep track of \$500 and \$800 loans as to when they are due or not due? You would have to have a staff as big as your present staff to do that. In view of what Dr. Clark tells us, and if the committee agree that it is an incentive to permit the bank to charge a slightly higher rate to a person in default how would it do to add to the present (f) "as long as the borrower was not in default and in no event to exceed 6 per cent should the borrower become in default." That would carry out your notion of the best way of regulating against default.

Dr. CLARK: I have no objection to that. In the regulations we might provide only for a higher rate where a borrower was persistently refusing to pay even though he seemed to be able to pay if he wanted to.

Mr. TUCKER: I do not know how you would enforce that regulation. I may say that I have practised law in a rural district for a great number of years, and I have come to this conclusion from my experience, that there have been a great many attempts made to induce people to pay by raising the interest rate if they went into default, and in practically all cases it did not work. In other

words, once you raised the interest rate and the debt began to pile up faster these people got more discouraged than before. As a matter of fact, I think that experience has shown, certainly in western Canada, that the farmer almost invariably pays as soon as he can. He does not want to pay even 5 per cent, and you are not going to induce him to pay faster by putting a greater burden on him. As far as I am concerned I am absolutely opposed to this business of putting increased penalties on people if, through no fault of their own, they cannot pay. If they can pay there is ample power to make them pay. If it is quite clear from the fact there is no attempt made to make them pay that it is due to no fault of their own that they cannot pay then I absolutely deplore this idea of putting an extra penalty on. I am absolutely against it. I think the limit on these loans which are guaranteed to the banks should be 5 per cent and that it should be left there. If a person can pay and refuses they have the regular legal recourse. As to this suggestion that they be made to pay more if they go into default, that they should have to pay a higher interest rate, I do not think it works in practice and I am absolutely against it.

Mr. BLACK (*Cumberland*): I am inclined to support the contention of Mr. Tucker. To charge an extra rate of interest at such a time is to charge it when the debtor is least able to pay. If he is wilfully in arrears the bank has its recourse, as I understand it, by calling the loan, but I am opposed to exacting a higher rate of interest at a time when he is least able to pay it. If he is an honest individual—and most of them are—he will pay it if he can, and to penalize him and further discourage him by exacting a higher interest rate I think defeats the purpose of this Act. I am in sympathy with the views expressed by Mr. Tucker.

Mr. PERLEY: Mr. Chairman, I think there is no question that Mr. Tucker is right. There will be occasions when the farmer will be in default owing to no fault of his own, but probably owing to conditions of certain kinds over which he has no control. I think we should make sure that if he is in default for a reasonable time, and not too long, of course, he should not pay any more than 5 per cent. Under section 6 (1) (*h*) on page 5, to which Dr. Clark referred, you make provision there for dealing with default. I think there should be an amendment made in that clause whereby the rate should not be higher than 5 per cent. Then, in this clause we are considering now I think you should strike out, "as long as the borrower was not in default." That would make it pretty certain that the charge would not be more than 5 per cent.

Mr. KINLEY: What constitutes default, Dr. Clark? For instance, if a man borrows a certain sum for three months and he goes in and says, "I cannot pay it but I would like to renew the note" the banker can refuse him and then he is in default.

Dr. CLARK: Yes.

Mr. TUCKER: It may be that the banks could use that part of the Act to get 6 per cent on their renewals. I would move an amendment—

The CHAIRMAN: Just a minute, please, Mr. Tucker.

Dr. CLARK: Our regulations in (*g*) on page 5, provide what happens in the case of either impending or actual default and we have the power there to prescribe what course shall be taken. In the case of home improvement loans and in connection with other private lendings I have seen cases where the increase in the rate of interest proved to be a good thing and helped the borrower to get his debt paid and see that he got it paid promptly when he could do it. In the case of a farmer who has a crop failure and is not able to pay, that is another matter; but we can provide by regulation for that kind of a case. What I am thinking of at the moment is a case of a person who persistently refuses to meet his obligations when they are due, and the longer he leaves the thing go the more trouble he gets into.

Mr. TUCKER: The trouble in that regard is that if the banker can raise his interest rates and have them guaranteed by the government there will be every inducement for that sort of a thing to happen. I am looking at it from the other standpoint. I believe that if they were limited to 5 per cent and that was all they could get they would be more interested in seeing the man made his payments if he were able. If they can sit back and realize 6 per cent guaranteed by the government there is no inducement for them to try to collect. I would move that "as long as the borrower is not in default" be struck out of subsection (f) of clause 1 of section 3.

Dr. CLARK: In the case that you have mentioned that would be in default and the claim would have to be a claim of the government on the borrower, it would not be the bank which would hold on to the loan in order to get 6 per cent.

Mr. PERLEY: I would second the motion made by Mr. Tucker.

The CHAIRMAN: The motion does not need to be seconded.

Mr. KINLEY: If you have any difficulty in trying to collect your notes what recourse have you?

Dr. CLARK: It is a pretty drastic recourse; to call the loans and enforce.

Mr. KINLEY: You could call the loans, could you?

Dr. CLARK: After it has gone into default and it has come to us.

Mr. KINLEY: Suppose a man is in default, what could you do?

Dr. CLARK: Subsection (k) on page 5 reads:—

to prescribe the steps to be taken by a bank to effect collection on behalf of the minister of any guaranteed farm improvement loan in respect of which any payment has been made by the minister to the bank under this Act and to provide that in the event of neglect by the bank to take such steps the amount of such payment may be recovered by the minister;

We can prescribe by regulation what steps shall be taken in that case.

Mr. EDWARDS: Have you given any consideration to this thought; we have been talking about penalizing a man when he has not paid.

Dr. CLARK: Who refuses to pay.

Mr. EDWARDS: Yes; who refuses, or ignores, or does not, whether it be a voluntary or an involuntary act on his part. I have in mind what is done by a number of institutions and I suggest that we might look at this proposition from the business viewpoint; why not put a premium on prompt payment by way of discount or a saving to the individual who does meet his obligations promptly. For example, I would infinitely I think rather see this interest rate set at 6 per cent for the normal rate with the proviso that every borrower who pays on time shall be automatically entitled to the discount of 1 per cent. Maybe it is the same thing in the ultimate result, but the appeal is different. The man who gets the discount for paying on time and the public generally will regard that in an entirely different light if it is done that way to what they do if you apply this principle. Now, that means that on one hundred cents borrowed he pays 105 cents if he pays it say by June 1st, and when he goes over there is 1 per cent penalty added. Now, the law and the courts and national justice resent the idea of a penalty, but it does look with favour on the principle which I have expressed; the man who pays promptly and on time pays twice. And I think if that principle were given effect to in this bill it would meet an entirely different reception to that which is seen in the objection just voiced by Mr. Tucker; that here the government is in effect approving the principle of a penalty to the individual who voluntarily or involuntarily does not pay on time.

Dr. CLARK: The psychology of your suggestion is different, but it would increase the penalty against the fellow who did not pay promptly because he

would be required to pay 6 per cent interest not only for the time in default but for the full period of the loan.

Mr. EDWARDS: No. I would commence at 6 per cent; I would say the basis of interest rates on all loans is 6 per cent but it would be reduced to 5 per cent if you pay promptly; that if you pay on or before the due date you will receive a discount.

Dr. CLARK: Suppose he goes a month over the time for payment, he would then have to pay 6 per cent for the whole term on which he had the loan.

Mr. EDWARDS: That is right.

Dr. CLARK: And under this bill he would only be required to pay 6 per cent for the one month for which he was in default.

Mr. EDWARDS: That is true, but just the same that would get your money in. I have in mind one of the public utilities in our home town with whom if you pay your bill promptly you get a discount of 15 per cent but you have got to have a post mark on the letter containing your remittance in order to show it was mailed before the due date in order to get your discount.

Dr. CLARK: Your scheme would also make it impossible to make any differentiation between the fellow who is unable to pay and who fails to pay only because he is unable to pay, and on the other hand the man who persistently refuses to pay and delays his paying.

Mr. EDWARDS: I think it would bring your borrower into the bank and he could consult with the bank manager and he would be able to tell the borrower that he would be able to make such and such an arrangement—he would say to the bank manager I want to get the benefit of the discount; and it may very well be that he would go in and there is no great difficulty in arranging for some sort of a refinancing that would enable him to take advantage of the discount provision, and thereby get the advantage of the definitely lower rate.

Mr. GRAHAM: I have a great deal of sympathy, of course, with Mr. Tucker's suggestion and I would be delighted if you thought the words that he would like eliminated could be struck out. In fairness, however, we must keep in mind this; this particular Act is supposed to induce the banks to provide accommodation to farmers for farm improvements, that is a measure of recognition of the importance of the farmer in production and our whole economic life. To give recognition to that we are setting a rate of interest at 5 per cent, which is 1 per cent below the legal rate which we as a committee and as a House decided as a fair and reasonable rate of interest in the Bank Act. I had this in mind, that while we want to see to it that the farmer is not mulcted unfairly yet it strikes me that we must leave the Act so that the banks will be encouraged to do the business that we suggest would be good business for the nation and the farmer and be able to do it at a fair and reasonable profit sufficient to persuade them to enlarge that particular type of business. Now, there is this: the minute a note given to a bank becomes past due there is a great deal of bookkeeping, reports, and supervision—perhaps reports to head office—which entail expense.

Dr. CLARK: And to us too.

Mr. GRAHAM: Yes. There is definitely an expense attached to a note that is past due imposed upon the banks because of that record keeping and the system of banking pursued in this country which imposes that added expense. Now, whether we could safely cut that out and ask the bank to work within the 5 per cent would certainly be something which would be welcome to the farmers and to most people when we consider the type of farmer referred to by Mr. Tucker who meets with some disaster and who through no fault of his own is unable to meet that loan; but I think this is one purpose which the added interest on overdue loans accomplishes; it encourages the farmer to make an arrangement either by payment or renewal on or before due date and this is

as it should be. A farmer who secures a loan must expect to comply with banking practice if it is reasonable. He should be induced to go in promptly. If he cannot pay he should arrange a renewal which would eliminate this extra work I have been speaking about. I have a great deal of sympathy with Mr. Tucker's amendment, but I would like to accomplish equity without endangering the purposes of the Act—putting the bank to unfair expense, in connection with past due loans. We want the banks to make legitimate loans and to do this we must be fair to them. I think it is a matter which, in fairness to all concerned, should be very carefully considered.

Mr. HILL: You would not consider a renewal as an overdue note; the banks might.

Mr. GRAHAM: Oh, no.

Mr. KINLEY: It is overdue if the banks do not want to renew it; they could collect very readily interest on their renewals, if they want to do it that way. I do not know that they would.

Mr. GRAHAM: Could we put a reasonable limit? Could we set a period? Three days grace are given under the Bank Act. Could we, under this Act—because I know the difficulty which results on occasion from bad roads or sickness or for some other reason so that farmers cannot get in to the bank when they want to—could we not accomplish our purpose to encourage farmers to look after loans in the matter of coming in to the bank and explaining the circumstances and arranging a renewal promptly and thus save the bank any unnecessary expense and trouble—could we accomplish our purpose if, under this particular Act we recognize the position of the farmer who lives at a considerable distance—now that some branches have been closed some farmers have to go a long way in western Canada to a banking centre—could we not recognize the existing difficulties and provide that no higher rate than 5 per cent will be charged if he is not in arrears beyond thirty days. That would give him a reasonable period to get in and arrange a renewal.

Mr. TUCKER: Mr. Chairman, if the banks find anyone is in arrears and that that person is able to pay but unwilling they have plenty of rights to enforce their claim against that person who owes the money. But to say that you are going to guarantee the bank and that they can, immediately a loan is in default, raise the rate of interest to 6 per cent and have it guaranteed by the government of this country, I submit is something which is not in accordance with what was deemed to be at least the policy of the government in regard to this intermediate loan business. The average cost of a bank doing business is 2·28 per cent and in that 2·28 per cent there is provision for losses to the extent on the average during the last fifteen years of \$13,000,000 a year, and here we are eliminating that feature of loss altogether; therefore, we are certainly eliminating the feature of loss of that 2·28 per cent.

Hon. Mr. ILSLEY: Are we?

Mr. TUCKER: Yes; because in that 2·28 per cent there is the provision for losses, as I understand it.

Hon. Mr. ILSLEY: Yes.

Mr. TUCKER: Here you have your loss guaranteed.

Hon. Mr. ILSLEY: No, just to a limit.

Mr. TUCKER: Up to 10 per cent, and they will make sure they keep within that, I submit. So if we let the banks charge more than twice as much as the average amount of their cost of doing business and still allow them to increase that with the guarantee, I think it would be a terrible thing to have it go out through the country that we have started out to provide intermediate loans at 5 per cent but that if the farmer gets into default the charge is 6 per cent and ultimately if he does not pay up he is going to have to pay interest at the rate of 6 per cent on the overdue loan.

Dr. CLARK: We get the 6 per cent.

Mr. TUCKER: I submit not. You do not necessarily take the loan over the moment it goes into default, because subsection (h) of section 6 says this:—

to prescribe in the event of default in the repayment of a guaranteed farm improvement loan, the legal or other measures to be taken by the bank and the procedure to be followed for the collection of the amount of the loan outstanding . . .

In other words, the bank will collect the amount, and up to the time that the government takes it over, as I understand it, the amount owing to the bank will be paid the bank by the government. Let us make this clear-cut as suggested in my motion to eliminate this part: "as long as the borrower is not in default." I do not think this penalty will induce farmers to pay up. That has not been the experience I have had in my long time of practising law. It is permitting a higher rate than 5 per cent. I suggest we make that clean-cut, because this provision to make them pay the higher rate by way of penalty has not worked in the past, and I do not think that when people cannot pay they should be asked to pay a higher rate of interest; it should be less instead of more.

Mr. GRAHAM: Would you suggest, based on that assumption, that the banks should realize on their security if the loan is in arrears? I think you and I will agree that the last thing we want the banks to do in a period of stress would be in any wholesale manner to attempt to realize—

Mr. TUCKER: I said if it was clear that the man could pay it; but if it was clear that the man could not pay he should not have to pay 6 per cent instead of 6; it should be carried on at 5 per cent instead of 6.

Mr. PERLEY: Will someone define "default" in (f) section 3, and in (g) and (h) in section 6? Is there any different definition of "default" under this Act?

Mr. MUNDELL: There is no definition of default contained in this Act of which I am aware.

Mr. PERLEY: Is there any difference in the term "default" under these two sections? Is he in default if you make it two weeks?

Mr. MUNDELL: Not as far as I know. The regulation made under the authority conferred by (g) on page 5 may provide steps to be taken in the event of impending default, but as far as actual default is concerned, that will be the same in all the sections.

Mr. PERLEY: As I understand it, Mr. Chairman, subsection (h) on page 5 deals with the man in default who does not intend to pay. This other section deals with the man who may be in default for two weeks, as a result of a fire or something; where he was prepared to pay and where, as a result of an accident which cost him \$100 or where he had to go to the hospital and have an operation, something he had been accumulating and with which he was ready to make his payment he had to use for another purpose altogether. I think that is the man we want to protect.

Dr. CLARK: That would be covered, I think, by our regulations.

Mr. MAYBANK: If I were reading this Act outside, and without consulting anybody at all in connection with this work, I would come to the conclusion that it is quite definitely the intention of the government that persons on the lending side of the transaction would charge something extra after default. The introduction of these words as they appear here suggests to me that it is indeed the policy to charge for default. Is that the intention? Has it been considered? Has it been determined that there will be some kind of penalty for default? I can quite understand that it may be, but let us get that clear.

Dr. CLARK: I think it was the intention, Mr. Maybank, to prescribe by regulation that in certain cases there will be a penalty for default. There is the power to provide by regulation for the steps to be taken in the case of default.

Mr. MAYBANK: Yes, quite. That is your next section.

Dr. CLARK: We could allow a higher rate to be charged only in certain cases or under all cases, if you like.

Mr. MAYBANK: Yes.

Dr. CLARK: Or we could limit the cases where that higher rate could be charged.

Mr. MAYBANK: Then it seems to me that the position after we have passed this section is this, that we believe that the government will not make regulations which will penalize default with too great promptness.

Dr. CLARK: That is right.

Mr. MAYBANK: That is, I think, the way it is to-day. As I see it, Mr. Tucker's main idea, or at any rate one of his ideas, is that we will not impose a penalty too quickly; that is one of the things he wants to guard against. He realizes it may not be quite the same government making the regulations in the future. He just wants to make sure that there will not, later on, come into being a personnel who will be too sharp in the making of regulations. He may be thinking of the treasury board's personnel, and that they will be too quick to exact a penalty for default. Could we not get to that by imposing a disability upon the governor in council to the effect that he could not place penalties for default until the default had continued for a certain length of time, fifteen days or thirty days or anything you like? Would that not take care of the situation in certain cases?

Dr. CLARK: I would think if you named any such period as that, that would likely become the regular payment date; and I would think there would be no chance of the governor in council providing that, if default shall take place, a penalty shall be imposed immediately.

Mr. MAYBANK: There is probably something in that.

Mr. TUCKER: In regard to the penalty and not paying, may I say that if you are not able to pay, there is sufficient penalty in having to pay 5 per cent until you are able to pay. That has been found certainly by the people I know, that the penalty of having to pay interest until you are able to finally discharge your debt is a sufficient penalty, without adding to it in your misfortune of not being able to pay when the debt becomes due. I think myself that when we are putting the guarantee of the government behind this thing to help the farmers out, then we should not say "If you are not able to pay, the banks can raise the interest rate to a higher rate than you originally borrowed at." I think we should establish a principle here. I am not so sure, but I am under the impression that in some jurisdictions in this country such schemes to penalize the people who do not pay their debts on the due date are illegal. I know at one time on lien notes, it used to be provided in Saskatchewan that the rate of interest, if paid on due date, was 7 per cent; if not paid, it would be raised to 9 and 10 per cent. There was a great deal of objection to that and it seems to me that at one time or another that was made illegal. I submit that the business of penalizing a borrower when he is not able to pay his debt by raising the interest rate on him is a vicious principle, and this parliament certainly should not give its consent to it. Surely if a man is not able to pay, he should not then have more interest placed upon him.

Dr. CLARK: My own personal disposition would be to recommend to the governor in council, if it is practicable to establish a formula, that in cases where there is clear inability to pay the rate be not raised.

Mr. TUCKER: Who is going to be the judge of that?

Dr. CLARK: But I am thinking of the case where you have persistent refusal to pay, even though there is ability to pay. Those cases exist. They are bound to exist.

Mr. TUCKER: Then in those cases where there is clearly ability to pay and refusal to pay, you can collect. You have your legal rights.

Dr. CLARK: Yes. It is a pretty powerful sanction, however.

Mr. TUCKER: I think that is the fair sanction, instead of putting an extra rate of interest on the man who was unable to pay.

Dr. CLARK: No. It does not imply that.

Mr. TUCKER: You hit the man who is able to pay and will not pay by legal costs. In other words, that is the sanction that has been found most useful in Saskatchewan, and it is a fair sanction. It does not hit the man who is not able to pay and it does hit the man who is clearly able to pay and refuses to do so. In our jurisdiction, in regard to such a claim as this, as Mr. Graham has properly stated, we do not want to put anyone in a position where he will be under compulsion and enforce payment of debts when people are not able to pay them. That is quite true. But I do not think that leaving this rate at 5 per cent means that; because while the debt is owing to the bank, they are sure of getting 5 per cent interest. If you let it go into default and they can get 6 per cent, then of course there is the tendency, I suppose, for the bank to let the debt run on and collect 6 per cent, with a government guarantee. I do not think that is sound. I think there should be 5 per cent that they are sure of getting; and I think also if the time comes when there may be a crop failure or something like that, there should be power given to the governor in council to see to it that those debts are not collected until the time comes when the farmers are able to pay. But I do think that they never should be required to pay more than 5 per cent when they finally do come to pay their debts. There should be no possibility that the farmers should pay more than 5 per cent on any of these government guaranteed loans.

Mr. KINLEY: Mr. Chairman, if in the final analysis, the man pays 5 per cent, it is perfectly clear what he pays. But if he comes in default, you do not know what he will have to pay. There is no indication. It seems to me if you indicate what the man should pay when he borrows, you should also indicate what he must pay and what the penalty is if there is going to be a penalty. It should not be left wide open. You must not forget this, that the default is largely in the hands of the banker. He can determine when there is a default. A man comes in to him with \$500. He may say, "I will not renew it. You must pay it." The man says, "I cannot pay. I want to renew." If the banker will not renew it, the man is in default; so that the determination of the default is not really in the hands of the borrower at all. It seems to me that if you leave it wide open, when a man is in default it is giving a privilege to the lending institution.

Dr. CLARK: It will not be wide open. It will be covered by regulation.

Mr. KINLEY: How will it be covered by regulation?

The CHAIRMAN: Mr. Cleaver has the floor.

Mr. CLEAVER: Mr. Chairman, I think that perhaps Mr. Tucker has approached this problem from the wrong angle, and forgets one very important feature. There is not any one member of this committee more anxious that farmers should have the lowest possible interest rates than myself, but just as soon as any loan becomes in default then extra costs and extra expense are incurred. You cannot maintain a collection department to look after arrears without it costing you money. I do not see anything punitive in this increase in the interest rate which is imposed on a borrower in default. I believe the amount is so low that it is simply an amount which will pay compensation for the additional cost to the lender of the loan becoming in arrears and of special steps having to be taken, increased work, increased cost in collecting the loan. If a borrower finds that he is not going to be able to meet his commitment on a due date I say that the borrower is duty-bound to go to the lending institution and say, "Now, I cannot meet my obligation", and give the reasons why and ask for a

renewal. If he does not do that then letters must be sent out to him or interviews must take place, and all that sort of thing. If we go out to drive down this interest rate too low what will happen? We will defeat our own purpose. Loans simply will not be made to men with indifferent credit. They will be denied the benefits of this Act. So I say I feel that this is not a penalty on a borrower who becomes in default. There is nothing punitive about it. It is simply to compensate the lender for the extra costs that are incurred.

Mr. HILL: Mr. Chairman, as a layman, and after listening to the lawyer's arguments and the reply of the Deputy Minister, I gather that the object of Mr. Tucker's amendment is to simplify this bill. The purpose of the bill is to lend money to farmers who need it but who may be a little doubtful as to credit risk. Why complicate it? You have got one penalty in there now. If a man is in default you can collect the money because you can take steps to collect it. Then on top of that penalty you put in another penalty of extra interest and it is left to the judgment of somebody as to whether the man is in default or not. I think you would simplify this bill if you just set out the rate of 5 per cent. Then, if a man is in default, if he will not renew the loan or fails to renew it when requested to do so, or has renewed it such a number of times that it can be considered in default and it is evident that he does not intend to pay it, or as the Deputy Minister said, shows he has no intention of paying it, then steps can be taken to collect it. That is the penalty that may fall on every man who goes in and borrows from a bank. If I borrow from a bank and they give me a 5 per cent rate and renewal time comes along and I go in they will often renew it. Sometimes they say, "No, it must be paid at a certain due date." If they renew up to a certain point and I refuse to pay it they collect it. That is the penalty. Why do you not simplify this and say 5 per cent? When a man is in default and refuses to take notice of the notices sent to him to come in to make renewal, or has renewed for so many times that it is his intention quite apparently not to pay the debt then it is up to you to put regulations in there so that the bank can take action or you can take action to collect that money. I think that should be the only penalty. Why bother with two penalties?

Mr. JEAN: Mr. Chairman, I think this discussion should have taken place on section 6, but on the whole I am in favour of Mr. Tucker's amendment for this reason. In my interpretation section 3 is intended to assure the government that it will not pay more than 5 per cent to the bank. That is the intention of subsection (f) in section 3. I do not know why we should have these words, "as long as the borrower was not in default", because there will be a certain lapse of time between the moment the loan will mature and the time when the government will pay the loss, and during that period what would be the amount of interest? Surely the bank will sustain the loan during that period. As it is drafted the bank may charge over 5 per cent within that period when the government will pay. I think the intention of the government was to be sure it will not pay more than 5 per cent on the loan when there is a loss. That is why I am saying that these words, "as long as the borrower was not in default" do not mean anything there. I think I would be in favour of Mr. Tucker's amendment to drop those words.

Hon. Mr. ILSLEY: May I say a word about this? Under the regulations made under the Home Improvement Act a regulation was made about this and the regulation was that a note may provide for the payment by the maker of interest at the rate of 7 per cent per annum from the date of default until payment upon each instalment of principal in respect of which default of payment has continued for at least fifteen days from the due date. The rate of interest under the Home Improvement Loans was 6.2 per cent and this regulation provided that if an instalment was more than fifteen days overdue it might bear interest at 7 per cent from the due date.

Mr. McNIVEN: That gave fifteen days grace.

Hon. Mr. ILSLEY: Yes, that would be fifteen days grace really. I suppose that the intention was to make some such regulation in reference to these loans. The idea of the fifteen days was to give some leeway to borrowers whose default was not due to any fault of their own.

Mr. MAYBANK: In considering this I think there is one point that we had better keep in mind. We should look at this from the point of view of a branch bank manager. He gets to the point where he has to institute collection steps. As Mr. Cleaver pointed out, in connection with collection there are costs. If steps have to be taken by which you are going to add to the cost of the branch bank manager doing business and he cannot have them paid by the borrower then there will be the danger of the issuance of a writ too soon and more costs being added which may put the borrower in a worse position than before. That is not a charging of fees or anything of the sort dealt with in the Act. It may very well induce the collector of a loan to take steps more drastic than he otherwise would have taken because by taking the less drastic steps he does not get any costs of collection and by taking the more drastic he does. We may very well make it worse for the borrower by trying to wipe this out.

Mr. GRAHAM: May I ask a question to clear up something in my mind, and about which two of the members have asked me? As to the question of the period that the greater interest rate could be charged some have thought—and I do not agree with them—that once a loan fell into default and a renewal was accepted the renewal could bear a higher rate of interest. In my opinion, the subsection is only meant to let the banks charge a higher rate of interest during the period of default. If they accepted a renewal under this particular Act the farmer would no longer be in default and the renewal rate would be subject to the 5 per cent rate; am I right in that?

Hon. Mr. ILSLEY: You mean, the default is wiped out by the renewal, by the new note?

Mr. MACDONALD (*Halifax*): I do not think that is right. I think once a renewal is signed the original indebtedness is extended.

Mr. GRAHAM: If that is so, then it should be cleared up. In many cases where renewals have to be taken beyond the original period of loan the only time the higher interest rate would be chargeable should be during that part of the time when the loan was in actual default.

Mr. MACDONALD (*Halifax*): You don't clear up an indebtedness by giving a renewal note.

Mr. GRAHAM: I think you do. I think that brings it out of default and it would be a farm development loan note and therefor entitled to the low interest rate.

Mr. TUCKER: Mr. Chairman, this money is going to be loaned in the rural districts. It is an altogether different matter from the home improvement loans where the money is loaned to people receiving salaries, wages and so on. As in the past, there are going to be times in the future when in various parts of the country the people engaged in agriculture for one reason or another are not going to be able to repay these loans when due. This is only coming into force for a period of three years with the idea and the understanding that at the end of three years in the light of the experience gained during those three years it shall be reviewed and renewed. In other words, it is going to be a permanent part of our set-up. Let us take for example, western Canada, and consider how we are going to deal with it out there. You are going to say to the farmers out there, we will make your obligations repayable but in the event of non-payment you will have your interest rate raised to 6 per cent, and we are going to do that by way of regulation; now, the

point I want to make is this, how in the world are you going to say by regulation that any farmer can pay or cannot pay. In other words, if you want the full rate of 6 per cent to be charged against him in the event of default you are going to find in most cases the explanation is crop failure. And when it comes to a question of crop failure in western Canada you are going to have a situation where at the very time he should be paying a low rate of interest he is going to have to pay the higher rate. It has been suggested that the larger amount is required to cover the cost of collection but the cost of doing business is estimated at 2·28 per cent; in other words, the cost of collection of debts that are in arrears has been included in that 2·28 per cent and the man is already paying interest in the 5 per cent to cover that cost of collection and things of that sort. In other words, the 2·28 per cent covers not only the ones which are paid when due but as well the loans which have to be collected; and I do submit that we should make it very plain to the farmers of this country that if they do incur loans that are guaranteed by the government that they should know that the cost of these loans is not going to be increased by circumstances beyond their control.

Hon. Mr. ILSLEY: May I say a word. I am content to have the committee do anything it likes with this section. Whatever they want to do with it is all right. I think that there are perhaps some disadvantages to either course of action. We may find that what we do under this section if we take these words out will have some bearing on paragraph (h) on page 5; there the rate of interest chargeable by the government after they take it over would be more than 5 per cent—is there any objection to that?

Mr. TUCKER: I do not think a man who enters into a loan like this, guaranteed by his fellow citizens and the country as a whole, during the time that he cannot pay should be charged more than 5 per cent. Personally, I think 5 per cent is too much but I certainly am definitely against providing that he can be charged more than 5 per cent in any case.

Mr. PERLEY: I think the minister is right. The new section deals with interest. We have got to have some provision whereby you are going to deal with defaulters and I suggest that subsection (h) of section 6 is the section dealing with default. I think you should accept Mr. Tucker's amendment to this section and we can discuss the other later.

The CHAIRMAN: Are you ready for the amendment?

On a show of hands the amendment was carried.

Clause 4, carried.

Clause 5, carried.

Clause 6:

Mr. TUCKER: I suggest that after clause (h): "such rate is not to exceed 5 per cent per annum simple interest" would make it very clear to the farmers entering into this scheme that they are not going to be penalized by being charged a rate higher than 5 per cent.

Mr. GRAHAM: Why not cut out that last, after the semi-colon?

Mr. TUCKER: They might charge less than 5 per cent; the government might find in the case of crop failures in any one part of the country that the rate of interest would be cut down to 2 per cent. I think there is going to be much more legislation of this kind in the future than there has been in the past. The lowest rate of interest as it stands is 5 per cent per annum.

Hon. Mr. ILSLEY: The place for the amendment, I think, is after the word "interest" in line 23; so it would read; "and rate of interest not exceeding 5 per cent per annum to be charged on payments overdue."

Mr. TUCKER: That is right.

Hon. Mr. ILSLEY: I would like to have somebody say something as to the effect of that; does that follow from the other point?

Dr. CLARK: I think that follows, if you do not want any protection for the government against the persistent defaulter.

To get back to the point which Mr. Tucker made a few moments ago, about us being able to determine whether a borrower is able to pay or not. The idea that I had in mind was that we should be able to say that where a man definitely has a crop failure, that that would be regarded as inability to pay, or as representing his probable inability to pay. That was the kind of thing which I had in mind.

Mr. TUCKER: When your people come along to a branch bank and check up on these things and the bank manager says this man did not have a crop failure and the man says I did have a crop failure; how in the world would you manage to decide that question? In other words, I think it would be impossible of administration. The basis of this whole scheme is the guarantee to the banks—why should we come along now and say they are going to be penalized. I think it should be known that all of this intermediate credit is to be at the rate of not more than 5 per cent. I am quite convinced that 5 per cent intermediate farm credit is too high. I hope it will be lower and I think we should put a ceiling on it at 5 per cent and not any higher.

Mr. MACDONALD (*Halifax*): I think that is the effect of subsection (h) of section 6 now. I do not think the Governor in Council will be authorized to make any regulation that will increase the 5 per cent rate. Under the section we passed the rate of interest on the loan paid to the bank is not to exceed 5 per cent. And now, the Governor in Council will be empowered to make regulations to provide for a higher rate than 5 per cent to apply to payments overdue. I would have the section left the way it is. You have it already limited to 5 per cent.

Hon. Mr. ILSLEY: Mr. Mundell says the effect is the same in his opinion whether he puts the words in or not. That is Mr. Macdonald's point.

Mr. MUNDELL: If we do not put the words "not exceeding" in I think the preferable change would be to drop the words at the end of the section.

Hon. Mr. ILSLEY: And the rate of interest?

Mr. MUNDELL: That would carry on at 5 per cent on the loan and on default.

Hon. Mr. ILSLEY: Delete the words "and the rate of interest to be charged on payments overdue"?

Mr. MUNDELL: In my opinion that would be a consequential change from the earlier change.

Mr. TUCKER: Unless the government wants to retain the right to reduce it, and I think that might be worth while; because you might have millions of dollars outstanding in the case of a crop failure as in 1937 and 1938, and you might say that due to that national calamity the rate of interest on all these outstanding amounts should be reduced. Of course we could always introduce legislation later on, but I think it would be very good to have the power to reduce.

Hon. Mr. ILSLEY: I prefer not. I think it would be better to be left to a subsequent action; otherwise it is a sort of notice that if they will default and stay that way long enough they will likely reduce the rate of interest. The word "and" should go in before the word "the" in line 21 between the words "outstanding" and "the" and the words "and the rate of interest to be charged on payments overdue" at the end of the subsection should be deleted.

Mr. MAYBANK: Those words now do not do any harm after the words have been deleted; the only change would be to reduce.

Hon. Mr. ILSLEY: I prefer not to do that. If it should become a matter of policy to do that, then I believe it should be dealt with later.

(Carried.)

The CHAIRMAN: Are there any further amendments to this section? Shall the section as amended carry?

(Carried.)

Section 7.

(Carried.)

Section 8.

(Carried.)

Section 9.

Hon. Mr. ILSLEY: There is an amendment to section 9.

Mr. McNEVIN: I move that subclause 1, clause 9 of bill 134 be amended by deleting the word "of" after the word "foregoing" in line 2 on page 7 thereof and by inserting the word "thereupon" after the word "shall" in line 5 on page 7 thereof.

Dr. CLARK: It was a typographical error.

The CHAIRMAN: Shall the clause as amended carry?

(Carried.)

Clause 10.

(Carried.)

Clause 11.

(Carried.)

Clause 12.

(Carried.)

Clause 13.

(Carried.)

Clause 14.

Mr. TUCKER: Might I ask what the intentions are in this regard? I wondered why the Act should not go into force when it receives the assent of the Governor-General?

Hon. Mr. ILSLEY: Well, the government might want to give some consideration to the supply situation. These loans are for the purpose of purchasing agricultural implements, installations and agricultural equipment, and there is a great shortage now. Probably the government would give consideration to the supply situation in fixing the date of the proclamation.

Mr. TUCKER: With regard to such things as a farmer is able to buy, the fact that he can buy them cheaper should not be harmful. They can only buy what there is in supply now. I do not see why they should not buy them as cheaply as they can as soon as possible.

Mr. MAYBANK: I suppose you will have to have a little time for these regulations?

Hon. Mr. ILSLEY: That would be the main consideration, I think.

Mr. MAYBANK: Would it be reasonable to suppose that the proclamation will not be very long delayed?

Hon. Mr. ILSLEY: That would be reasonable, I think.

(Carried.)

The CHAIRMAN: Shall clause 1 carry?

Mr. GRAHAM: Under clause 1, I want to ask something of Dr. Clark. All through the consideration of this bill I have had a thought in mind, remembering the past history of banking loans in western Canada, that this act may not, in western Canada, accomplish the purpose which the government hopes it will. I wonder if Dr. Clark will tell us whether he has had any discussion with the

banks as to how in their opinion this will permit their making of loans for the purposes set out in the Act, in the three prairie provinces?

Dr. CLARK: I did have a discussion last week with several of the general managers and presidents of the banks and the president of the Canadian Bankers' Association. I am sorry they are not here to-day to speak for themselves. They assured me that they were most anxious to go ahead and make this Act as complete a success as it could possibly be made. They were most anxious to go forward in making loans under this Act in western Canada and in other parts. I thought that someone would be here to-day who would make that statement for the banks.

Mr. GRAHAM: I wish to make this statement concerning the viewpoint from which I approached this matter, and which is somewhat different from that of Mr. Tucker. I think our main problem in western Canada is the one I raised some time ago before the committee—the appreciation by the banks of the peculiar conditions under which farming is carried on in western Canada, and the necessity for the banks realizing the changing periods in which the farmer can reasonably be expected to repay.

Dr. CLARK: I think that is important.

Mr. GRAHAM: I do hope that the banks, in the application of this Act and in the application of the provisions of the Bank Act, keep that in mind.

Mr. TUCKER: They will be more likely to keep it in mind if we had only renewed their charters for two years.

Mr. GRAHAM: I disagree with you, Mr. Tucker. I say to you that if the banks are the predatory people suggested then there is no hope at all for this Act performing the good which we expect. I have a conviction that the banks, like the rest of us, have learned a great deal in the last decade and now feel their sense of partnership in the national effort being made to maintain our national income at the highest possible point; and I am hopeful that the banks have learned some of the conditions in western Canada in which the banks must fit their policy if they are to fulfill their function in our national economic life. I am hopeful, as I say, that in the loan business in western Canada they recognize the fundamental that, of necessity, the period from the time of borrowing to the time of repayment is conditioned on climatic and crop conditions and on price conditions, which makes it different from Ontario, Quebec or the maritimes. We as governments and they as banks must, in my opinion, take that into account in establishing banking practice in that area, if they wish to be fair to the farmers and carry on in this way.

The CHAIRMAN: Shall section 1 carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the preamble carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the title carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall I report the bill?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Does the bill need to be reprinted?

Dr. CLARK: There are some amendments.

The CHAIRMAN: Have we permission to reprint the bill?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Is it your pleasure to adjourn until to-morrow morning at 11.30?

Some Hon. MEMBERS: Carried.

The committee adjourned at 5.42 p.m. to meet again on Wednesday, August 2, at 11.30 a.m.

August 2, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, an Act to incorporate the Industrial Development Bank, being bill No. 7. Has the deputy minister anything to say by way of introduction to the bill?

Dr. CLARK: No, I do not think so.

The CHAIRMAN: We have already had a partial discussion of the bill, you will recall. Shall we proceed to consider the bill clause by clause? We will allow clause 1 to stand, short title. Clause 2, interpretation.

Mr. McNEVIN: There is a slight amendment in clause 2. It is that paragraph (d) of clause 2 of bill No. 7 be amended by inserting a comma after the word "building" where it appears therein and by adding immediately thereafter the words, "alteration or repair."

Dr. CLARK: It brings it into line with the Bank Act.

The CHAIRMAN: What section is that?

Dr. CLARK: 2(d).

The CHAIRMAN: Shall the amendment carry?

(Amendment carried).

Are there any other amendments? Shall the section as amended carry?

(Carried)

Clause 3, incorporation; are there any amendments proposed? Shall the section carry?

(Carried)

Clause 4, head office; shall the clause carry?

(Carried)

Clause 5.

Mr. SLAGHT: In clause 5 it occurs to me, Mr. Chairman, that subsection 2 might be amended by inserting after the word "he" in the seventh line "or any member of his family." In other words, it is aimed at a prohibition against a director being himself interested in something on which money is to be advanced, and it might be enlarged as against a director or any member of his family.

Mr. KINLEY: Of his immediate family.

Mr. SLAGHT: Or any member of his immediate family; that would perhaps be wide enough.

The CHAIRMAN: It is in line, 27 is it not?

Mr. EDWARDS: Line 28.

Mr. SLAGHT: Himself or any member of his immediate family, in line 27.

Mr. EDWARDS: Why not put in relative? What about a married man's brother?

Mr. SLAGHT: My suggestion was, "or any member of his family." Just how that would be construed in law I do not know.

Mr. EDWARDS: What do you mean by "family," the family of which he is the head or the family of which he is a member?

Mr. SLAGHT: You might make it read "any relation."

Mr. KINLEY: That is going too far.

Mr. EDWARDS: Or any blood relative.

Mr. TUCKER: All you are saying is that he does not have the right to vote on that particular thing. It is not going to make much difference.

Mr. ABBOTT: I do not know that there is any objection to it. I notice that it seems to go further than we have done in the Bank Act. Subsection 3 of section 75 of the Bank Act reads:

- (3) In no case shall a director of the bank be present or vote at a meeting of the board during the time when loans or advances to himself or any firm, company or corporation of which he is a partner or director are under consideration.

Mr. SLAGHT: Of course, the Bank Act does not commend itself as a model to me in all respects.

Mr. ABBOTT: I realize that, Mr. Slaght.

Mr. CHAIRMAN: Mr. Slaght has a motion.

Mr. ABBOTT: The only thing that occurs to me is that someone has suggested "relative", and that is a pretty comprehensive term.

Mr. EDWARDS: I say "blood relative."

Mr. RYAN: I think it should be any member of his family.

Mr. McNEVIN: After all it is the special interest of the man himself and his immediate family. I do not see why a man should not be permitted to vote if his brother-in-law had an interest. It is only one vote on a board of directors. I support Mr. Slaght's suggestion, "himself and his immediate family."

Mr. EDWARDS: What do you mean by "immediate family?"

Mr. McNEVIN: His own children.

Mr. EDWARDS: Not his brothers?

Mr. McNEVIN: Not at all.

Mr. ABBOTT: Just as a suggestion to the committee do you think that a phrase such as "his wife or child" would be sufficiently comprehensive to give protection?

Mr. KINLEY: Is that not his immediate family?

Mr. RYAN: I think the way it is, "a member of his immediate family," is sufficient.

Mr. ABBOTT: Perhaps the committee would like to hear Mr. Mundell.

Mr. MUNDELL: The difficulty with "immediate family" is it is undefined. I would think "wife or child, brother or sister" or something along that line would be happier from the precise point of view of expressing it.

Mr. EDWARDS: Wife or child, brother or sister; I agree.

Dr. CLARK: Wife, child, parent, brother or sister.

Mr. KINLEY: I think it should be his own immediate family.

Mr. TUCKER: "Immediate family" has no meaning in law.

Mr. EDWARDS: None at all.

Mr. KINLEY: I do not know about that.

The CHAIRMAN: How will the amendment read?

Mr. ABBOTT: Would the amendment be satisfactory if it read this way, "Himself or any firm or corporation of which he, his wife, child, brother, sister or parent, is a partner or director."

Mr. BLACKMORE: That is good.

Mr. JEAN: No, I am against that.

The CHAIRMAN: Do you so move, Mr. Slaght?

Mr. SLAGHT: Yes, I will so move.

The CHAIRMAN: Shall the amendment carry?

Mr. JEAN: On division.

The CHAIRMAN: Is the amendment carried?

(Carried)

Mr. SLAGHT: I have another suggestion, at the end of subsection 2 after the word "director" add the words "or shareholder". That is intended to prohibit a man voting on a purchase from himself or any firm or corporation of which he is a partner or director. He might be the controlling shareholder in a firm without being a director.

Mr. ABBOTT: If I may express my own opinion there it seems to me that is going too far. It would mean going over the lists of every company in which a man might be a shareholder. He might have five shares in some public company with hundreds of thousands of shares outstanding, and in order to qualify that company to borrow from the Industrial Development Bank he would presumably have to dispose of his shares or take no part in the voting. He might forget that he had those shares.

Mr. SLAGHT: He is not supposed to forget. When a contract comes up beneficial to the corporation in which he has shares it would be just too bad if he forgot about that and controlled the company and then voted a favourable contract to the corporation in which he is a controlling shareholder. It is up to him not to offend against it. If we add that wording, it will cover the situation.

Mr. ABBOTT: I would be entirely in agreement with Mr. Slaght if it were restricted to a company which he controlled. I think the point is very well taken.

Mr. KINLEY: The directors of this bank are supposed to be officials of the government as officers of the Bank of Canada, are they not? Therefore their interest is a banking interest all around.

Mr. TUCKER: No. Their directors are appointed from all over the country. The solicitor for the wheat pool is a director.

Mr. KINLEY: The section reads: There shall be established a bank, to be called the Industrial Development Bank, consisting of those persons as members who for the time being comprise the board of directors and the assistant deputy governor of the Bank of Canada." These people are all appointed by the government of Canada as directors of the Bank of Canada.

Mr. TUCKER: No. They are people with outside interests. As I say, the last appointment was a man who was solicitor of the wheat pool. It was suggested by Mr. Abbott that a person could not get a loan. This only deprives him of the right to vote when the loan is in question. He could still get a loan from the bank but he could not vote on it.

Mr. KINLEY: Mr. Chairman, the suggestion is that we are going to bring in new directors from the field in this bank. There is no question about it, it is an interlocking institution with the Bank of Canada. The directors of the Bank of Canada will be directors of this bank Is that not true?

Dr. CLARK: Yes.

Mr. TUCKER: Yes. But Mr. Kinley forgets that these people who are appointed as directors of the Bank of Canada have outside interests. This is a very small part of their interests, being directors of the Bank of Canada.

Mr. KINLEY: How do they vote when they come to the Bank of Canada?

Mr. TUCKER: Because they are directors of the Bank of Canada and ipso facto they are directors of the Industrial Development Bank.

Mr. KINLEY: I understand that. But I say are they circumscribed as directors of the Bank of Canada in their voting?

Mr. TUCKER: In regard to that, there is protection given in the voting power of the governor.

Mr. SLAGHT: Individuals do not deal with the Bank of Canada as such.

Mr. KINLEY: No.

Mr. SLAGHT: The Bank of Canada does not make loans to corporations or individuals. The same question does not arise.

Mr. KINLEY: You take Canada to-day, with the stock market, and the stock of the C.P.R. and all the other corporations. Everybody in the country may hold stock. A man may have two or three shares in the C.P.R. and he is qualified to vote as a director. It is the same way with the Canadian parliament. A man can be a shareholder of any corporation and still be a member of parliament. He can be a member of an incorporated company and still be a member of parliament. But he cannot himself do certain things. The idea is that in company law it is a different person. Everybody in the country is interested in the business of the country and may have shares in corporations, small or large. If you carry that too far, you will find that you will have nobody qualified to vote when you come to these directors.

Mr. ABBOTT: Might I clear up Mr. Slaght's suggestion? Was it your thought that this should extend to brother, sister, parent and wife, to the other class of relatives—in the case of brother, sister or parent of the director having a few shares in the company?

Mr. SLAGHT: No, it was not.

Mr. ABBOTT: I did not think it was.

Mr. SLAGHT: Just to the director himself. They might well have shares that he did not know anything about; but he knows whether he has shares in the company that comes to this bank to borrow money, and he ought to refrain from voting to this extent.

Mr. ABBOTT: Your suggestion was to add the word "relatives" to the subsection. In view of the first amendment, it would therefore extend to brother, sister, parent and so on. That would necessitate a change in the previous wording. I assumed that was your intention, by your later remarks. If you add the words "or in which he is a shareholder" it will restrict it to the individual. That is what you want.

Mr. SLAGHT: Quite so.

Mr. ABBOTT: There is no objection to that, I do not think.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the clause as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 6. Shall the clause carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 7?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 8: staff, branches and agents.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 9: branches and agents. Shall the clause carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 10: delegation of authority.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: No amendments? Shall the clause carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 11: bylaws. Shall the clause carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 12: capitalization, shares. Bank of Canada subscription for shares. Are there any amendments?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: The clause is carried. Then clause 13: issue and sale of bonds and debentures. Shall the clause carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 14: aggregate liabilities. Shall the clause carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Clause 15: business and power.

Mr. SLAGHT: With regard to clause 15, Mr. Chairman, I want to put these views before the committee before it is carried. You will note that this is a section which absolutely governs the power of the new bank with regard to the conditions and the persons to whom they may make loans. It reads: "Subject to section 14 of this Act, in order to provide credit or other financial resources which would not otherwise be available on reasonable terms and conditions"—which means to the borrower at reasonable terms and conditions, then and then only may this bank lend the taxpayers' money to a prospective borrower. I think that is a grave situation. I do not know to what extent the Department of Finance have considered that. I want to put it this way, that it will, in my view, be a God's blessing to the banks because no man can borrow this money unless he has first endeavoured to borrow it from a bank.

Mr. BLAIR: And the loan company.

Mr. SLAGHT: And the loan companies, the trust companies and even the companies that we authorized—these finance companies—to lend up to 26 per cent. I think, from the way it is worded now, he will have to show that, because parliament has put their blessing upon that kind of rate of interest to be charged a needy borrower. A man comes in and his reputation is not acceptable to his bank, the loan company or the trust company.

Mr. McNEVIN: Just there, Mr. Slaght, may I say that it is not always that he is not acceptable, but that the class of security that he might have, according to the Bank Act they might not be permitted to take.

Mr. SLAGHT: Oh, well; if you are going to try to interpret it in that way, let us say so—that they may only lend on a type of security which the banker is not permitted to loan on. I appreciate my friend's point that there are other elements, from what little I know about banking, which the banker sits down and considers when a man comes in for a loan. Probably the first and very important element is what is the moral risk, what is his reputation in his community, has he had a fire, has he had a couple of failures or vice versa, or is he a good moral risk? Secondly, what security does he offer for the loan? Now, the bank or trust company or insurance company lend under their loaning powers, and private estate funds are loaned to the extent of untold millions and he has got to endeavour to secure his loan from all that type and class of money lenders, and the money lenders whose sole business is usury—I do not use that word in any offensive sense—whose duty to their shareholders is making a loan where there is a reasonable chance of being repaid look that man over and scrutinized his security, and although it is their business to lend money, they say that the security is not good enough, that it is hazardous, that it is

a risk and that they will not lend this man any money on that security: then he can march off down the street to this bank of ours and borrow the taxpayers' money on security that no lending institution would lend on.

Mr. McCANN: There is nothing to justify that interpretation here.

Mr. SLAGHT: Let me read it to you.

Mr. McCANN: It says on terms. It is not available on reasonable terms and conditions.

Mr. SLAGHT: Are the terms and conditions of a bank, of a loaning institution, of a trust company or insurance company on unreasonable terms?

Mr. KINLEY: It might be unreasonable in as far as the type of loan is concerned because this is for long term credits and banks are opposed to long term credits because in their set up they want circulation. Or it might be that because of the type of the loan, upon the very virtue of this bill, it would be unreasonable to get the loan. I should like to hear that discussed, because I am not clear on it myself.

Mr. ABBOTT: I wonder if Mr. Slaght would allow me to make a statement. We have a suggested amendment to this section—

Mr. SLAGHT: I should like to hear it.

Mr. ABBOTT:—which the committee might like to have before proceeding.

Mr. SLAGHT: I am friendly to this bill, but I do not want us to dig a sink hole into which to pour the taxpayers' money on dogs and cats, to use the parlance of the street, on that type of loan which a banker would not touch with a 10-foot pole.

Mr. BLAIR: I wonder if you have the report from British Columbia. They have an Act similar to this, and according to the newspapers 40 per cent were failures. Have you got a report on the results?

Dr. CLARK: I have no report on that.

The CHAIRMAN: Mr. Mundell, do you know anything about it?

Mr. MUNDELL: No.

Mr. ABBOTT: I should like to put before the committee the proposed amendment. I quote from section 15: "That the words 'which would not otherwise be available on reasonable terms and conditions'"—that those words be struck out and that the following words be substituted therefor: "In any case or class of cases would not in the opinion of the board otherwise be available on reasonable terms and conditions"; so that the preliminary part of the section would then read: "Subject to section 14 of this Act, in order to provide credit for financial resources which in any case or class of cases would not, in the opinion of the board, otherwise be available on reasonable terms and conditions, the bank may..."

Mr. SLAGHT: I do not think that cures what I have in mind at all. In fact it makes it almost worse. Assume for the moment that you gentlemen at the head table are the board and that Dr. McCann is coming along for a loan. You are going to have in some way—not as mindreaders—to question him to find out if it is a loan which in the first place he has tried to get somewhere else. If he says that he has not then you have to dissect, and you have to say to yourself, if you are conscientious in carrying out your duty of lending the taxpayers' money, either that his reputation—you would not say that in this case—let us take a man named Smith and get away from personalities—you would have to say either that his reputation is shaky or that you doubt that his banker would lend him money, or you have to say that the security he has offered was such that in your opinion no bank would lend him money or no

trust company would lend him money or no insurance company fund or estate would risk their money on that kind of loan; so we will let him have the taxpayers' money. I think that is a vicious principle.

Mr. ABBOTT: You are overlooking the fact, I think, Mr. Slaght, that the loan which Smith may apply for is not the type of loan which the commercial banks are empowered under their charters to make.

Mr. SLAGHT: Just say so then; put it in the amendment.

Mr. ABBOTT: I have not finished. Or which established banking practice does not recognize as being an ordinary commercial banking loan. I know it has been said time and time again in this committee and in the house that the commercial banks on balance make reasonably short term loans, for a year or not much longer than a year; and the loans which it is contemplated this institution will make are for a very much longer time.

Mr. SLAGHT: My answer would be—

Mr. ABBOTT: So far as the insurance companies are concerned, there again they lend for perhaps five years, seldom longer than five years, sometimes ten years, but in the past, in my experience, they have not made a policy of lending on industrial property.

Mr. SLAGHT: I suggest the hon. member knows in his experience as a solicitor of one of our great banks that each bank in Canada has a subsidiary trust company?

Mr. ABBOTT: Yes. The only point I would like to correct there is that I am not a solicitor for one of our great banks. Thank you for the compliment. Still, to carry on your statement, I have acted for banks in the past, but I am not a solicitor for a bank. I just want to get the record straight on that.

Mr. SLAGHT: We will leave that phase of the matter aside. I think my friend knows something about banking and knows that our banks have wholly controlled subsidiary trust companies?

Mr. ABBOTT: No, they have not.

Mr. SLAGHT: They have not wholly controlled—

Mr. ABBOTT: No, not at all.

Mr. SLAGHT: —trust companies to which they send the type of business which, under the Bank Act, they are not handling themselves?

Mr. ABBOTT: I have no knowledge as to that.

Mr. SLAGHT: Where is the annual report of the Canadian Bank of Commerce? Is it here? They have a subsidiary. It is not a money lending subsidiary? You are quite wrong.

Mr. ABBOTT: I am not wrong. I tell you there is not a bank in this country that has a wholly owned trust company subsidiary.

Mr. SLAGHT: Take the Royal Bank. They have their own trust company, so-called.

Mr. ABBOTT: They have a trust company with which, apparently, they are in very close relationship, but they have no—

Mr. SLAGHT: Leave it that way.

The CHAIRMAN: The word "wholly" is the word complained of.

Mr. SLAGHT: Leave out "wholly" and say trust companies in which they have substantial control and authority.

Mr. ABBOTT: No. I do not think that is a correct statement either.

Mr. SLAGHT: What is the Bank of Commerce doing in its return showing a subsidiary trust company?

Mr. ABBOTT: I do not know anything about the bank.

Mr. SLAGHT: Will you enlighten me if I am wrong?

The CHAIRMAN: Perhaps Mr. Tompkins could tell us.

Mr. SLAGHT: Is it not so that most of our trust companies have working in close company with them trust companies in which they are interested and which in some instances are wholly financed by the bank?

Mr. TOMPKINS: No. I say that is absolutely wrong.

Mr. SLAGHT: What type of company is that?

Mr. TOMPKINS: So far as trust companies are concerned, it is on the record in the 1934 proceedings in the case of the Bank of Montreal, where they declared at that time—it is still a fact—that they own no shares whatsoever in the Royal Trust Company. It is true that certain of the directors of the bank are directors also of the trust company. The same situation almost precisely exists as to the relationship between the Montreal Trust Company and the Royal Bank of Canada and the National Trust Company and the Canadian Bank of Commerce.

Mr. SLAGHT: Let me put it this way. Trust companies with interlocking directorates carry on the business of lending money alongside bankers but lend to a type of borrower to whom the bankers are prohibited from lending by the provisions of the Bank Act. There is a close interlocking there. What I am suggesting is if we go back to this board of directors, under the proposed amendment of my friend, Mr. Abbott, they have got to sit down and say, if you are following this wording, "not otherwise available," in the opinion of the board would not be otherwise available. If you are honest in your duty, and I assume you would be, Mr. Towers and all his directors cannot just guess at it. They have got to create a foundation on which they can form an honest opinion that that kind of loan is so bad that no trust company, no bank, no loan corporation will, on the security that is offered, grant the man a loan.

Mr. ABBOTT: I suggest, Mr. Chairman, to say they would form that opinion on the basis the loan was so bad no other institution would lend on it is a complete misstatement of what is the real position. They would come to the conclusion that the loan is of such a type that no existing institution would be in a position to make a loan on reasonable terms and conditions.

Mr. SLAGHT: Let us amend the Act and say so.

Mr. ABBOTT: As I explained when this bill was in second reading in the house one of the main purposes of the bill is to fill the gap which exists in our financial arrangements in this country with respect to borrowers of small and medium sized amounts for medium term capital.

Mr. SLAGHT: If that is the real purpose of the bill it is very badly drafted because as drafted now, and if we adopt the amendment you suggest, a man who has been refused a loan by his bank can go right into this bank and borrow money. If you mean to confine it to the type of loan which no other lending institution can accept then let us say so, but it does not mean that at all in the language you have used either in your amendment or in the bill as drafted. It is very simple to say so, if you are right that that is the real purpose of this bill and you are not going to put up a bank which can take the cats and dogs that bankers and trust companies refuse, and make it clear.

Mr. ABBOTT: Perhaps the committee would allow me to read what Mr. Towers said on that point in our proceedings on March 29th at page 31 of the report of the committee.

"There is one final point I would like to touch upon if I may. Mr. Slaght suggested that the effect of the wording of section 15 of the bill—that is the section we are now considering—

"namely to provide credit or other financial resources which would not otherwise be available on reasonable terms and conditions would make it

necessary for the Industrial Development Bank to make sure that every potential lender had been canvassed by the applicant before the Industrial Development Bank could properly make a loan. Obviously it would not be practicable for the management to go to any such lengths. Leaving aside the legal question for the moment, my opinion is that the bank would have to operate along the following lines: if an applicant wanted a loan of a type in which a commercial bank might reasonably be interested the Industrial Development Bank would see that he discussed the matter with at least one representative bank normally doing this kind of business; if the credit requested was one which might be expected to be available by the issue of securities I think the development bank would want to know that he had talked to someone in that business to see if arrangements could be made; and similarly if it was the type of business which might well be done by an insurance company or a mortgage or trust company he should have some contacts of that kind before coming to us. The wording of section 15, so far as I understand it, was intended to confirm the thought expressed in the preamble of the bill that the Industrial Development Bank was to supplement existing lenders rather than displace them. For practical reasons I do not see how an absolute guarantee can be given that every potential lender in the country will be approached, in fact I am not sure that this would be entirely desirable. Perhaps the public interest would be better served by leaving lenders some incentive to look for business themselves. If the present wording of the section means that the Industrial Development Bank could not legally proceed in the way I have described, then I think the wording needs to be changed. In view of the terms of the preamble of the bill I think it is clear that the Industrial Development Bank should operate to supplement rather than displace whether or not a similar thought is actually incorporated in section 15."

The amendment, of course, which I have suggested is to get over any possible question of legal interpretation that the directors of the bank would have to make sure that every potential lender had been canvassed.

Mr. SLAGHT: Then, Mr. Chairman, I suggest that the Governor's statement just read by the hon. gentleman makes very clear what I said that this is not confined at all to lending on a type of loan that the banks are not permitted themselves to lend on. Mr. Towers' statement of what would be the duty of the board of this bank, that if it was the type of loan that a bank could make or if it was the type of loan a trust company could make then before lending to this fellow they should ascertain whether he had been to his bank or not, clearly shows that the Governor of the Bank of Canada interprets this Act as being an Act where they may lend to the type of borrower who could borrow from a bank if the banker would take the risk. Take the refinement that has just been put forward. Does it get away from the fact that we are passing legislation here that will enable taxpayers' money to be loaned (a) in one case where a borrower went to his bank and the bank would not lend him money; (b) where a borrower went to a trust company, who perhaps relax a little more than the banks do, and the trust company would not lend him money or (c) where he went to a mortgage company and the mortgage company would not take a chance on it. Yet we are going to authorize a group of men—and I think we could not have a better group than the Governor and the officers of the Bank of Canada—to administer an Act of this kind, but it is the principle of the thing that I think is almost going mad in the matter of furnishing funds to people, where men of thirty or forty years experience in determining who can safely be given a loan and who cannot are disregarded and we grant money to the type of borrower where the man whose life study has been the banking business says it is not a fit loan for us to take a chance on.

Mr. McNEVIN: At least we must admit Mr. Slaght's opinion of the banking fraternity is on the upgrade. However, that is only a passing reference.

Mr. SLAGHT: I have never cast the slightest reflection on the banking fraternity and my friend well knows that.

Mr. McNEVIN: This reads, "A person engaged in or about to engage in an industrial enterprise in Canada." I can see the possibility of a case where persons might come into the country from Europe where they had been engaged in successful operations but all they would have left would be their knowledge of business and their skill. Their securities, their capital stock and everything has been wiped out of existence. These people come in; they are worth-while people and establish here in this country or in the United States, but they have not the security that trust companies, insurance companies or banks might wish to advance money on. I think that is a gap where the state can step in with the taxpayers' money and take a chance to advantage. I believe that is one illustration where this type of financial institution can be of value. It has that broader field and is not restricted as the banks and some of these other institutions are restricted by the law as to what they can lend.

Mr. BLAIR: In regard to what the last gentleman has said, it says a company engaged in or about to engage in an industrial enterprise in Canada. It does not deal with new companies only. It deals with those that are at present engaged in an industrial enterprise. What we would like to know is if a person has engaged in some industrial enterprise and it has been found that the liability was not good—and there are apt to be many of those at the close of the war—and they have borrowed money from the banks will the banks tell this person to go and get money from the Industrial Development Bank to save them in the situation where the liability is poor. That is, will the banks use this industrial bank as a safeguard for their bad loans; that is, the industries that are about to go bankrupt? Should we not have some protection for the people so that we will not be paying to companies that are defunct because they have borrowed their money from the banks? I should like some protection there.

The CHAIRMAN: I think we should have a statement from the deputy minister.

Mr. SLAGHT: Yes.

Dr. CLARK: Dr. Blair, whatever the banks might want to do, I do not think the Industrial Development Bank would take that kind of loan. But there may be cases like this, and I have seen a good many of them in my experience, where a small group, say two or three brothers, or perhaps one individual has started a small business and they have produced a good product. They have made a success of it and the market develops on it and they need additional fixed capital in the business. They have not enough of their equity in the business to provide for the volume of business that they can do now. An ordinary bank could legitimately say, "Our business is to lend working capital, short-term working capital. What you need in your business is capital that will stay there permanently; that is, permanent capital. If you could get an additional amount of permanent capital, then we could finance your ordinary working capital from season to season." I have known many little businesses of that sort that go then to try to find that fixed or permanent capital. They go to an investment business or a bond house and they are told, "Oh, no, nobody knows you. You are too small. You are in a remote section of the country and you are too small. We could not sell your securities even on 10 per cent interest basis". They turn them down. The insurance companies are not interested. The trust companies are not interested. That kind of organization could go to the industrial bank and put up its case. If the industrial bank, after very careful investigation, said, "Yes, these fellows have proven efficiency, real efficiency in management; they have a good product and it has a good market and they need

more permanent capital in that business". The bank could step in and help out and keep that company on its feet, expanding its operations and making a real contribution to the national income of this country and the soundness of its economy, in my opinion. That is just one type of case that has come to me by the score.

Mr. SLAGHT: I think the explanation we have just received condemns this principle out of hand. Parliament two months ago dealt with the matter of the nationalization of the banks and dealt with it adversely on the theory of the great bulk of the members in the house that it was not desirable for the taxpayers of Canada to enter into the business of commercial banking. That was the theory on which it was condemned, that the taxpayer should not take over the business of making commercial loans to Smith, Jones or Brown. Now we find in this Banking and Commerce Committee a bill that has, in my judgment, a far more vicious principle than the taxpayer entering upon the business of taking over commercial loans—that is, good commercial loans of the country. We are going to have the taxpayer entering into the business of making commercial loans that are—I do not like to use the word "rotten."

The CHAIRMAN: Non-economic.

Mr. SLAGHT: Non-economic and terribly risky, when none of the companies whose business it that of lending money, will touch it.

Dr. CLARK: May I say there—

Mr. SLAGHT: Let me finish, Dr. Clark, if you please. Dr. Clark says to us or he illustrates his case by brothers or somebody or other who wants to have permanent capital to carry on an industrial business in Canada and his idea is that the taxpayers' money is now going to start in to finance, if it is textiles, a small firm; and the Dominion of Canada is going to put its money in to finance a small textile firm against the other textile men in Canada who are carrying along with their own capital, risking and financing through themselves and the chartered banks. Then we are going to enter into the business of the country practically on all types of lines and finance the man who cannot carry on that business unless the government bank gets behind him. That is a grave departure. Many people think that the government has put its nose into business too much already and ought to keep its nose out of business and leave it to the business men of the country. During the war it has been, of course, necessary, and I think we are all pretty well agreed on that. But it is paternalism for shifty borrowers who cannot get it through the regular sources and either you are going into commercial banking on the worst type of security or you are going to invest in permanent capital to go into industrial plants on the most risky kind of security, that the mortgage companies will not touch, that no respectable bond broker will finance in order to put a bond issue out and let free enterprise finance it. You are going to throw this country into carrying on that type of business with the taxpayer's money with the maximum of risk and the minimum chance of reward and enter into fields which the bulk of the people of Canada up to this date at least have condemned out of hand. I say that we ought to pause before we do that.

Dr. CLARK: Mr. Slaght, if I may just say a word here I should like to. First, these are not commercial loans in the sense in which you are using the term. The type of illustration I was making was a loan that was not suitable for commercial banks or chartered banks to make. I thought I made that perfectly clear. This is primarily permanent capital that is needed to supplement the ordinary type of loan made by chartered banks for working capital purposes. In the second place, they are not bad loans and not "rotten" loans at all. They are a lot of very good loans.

Mr. SLAGHT: That is what you say.

Dr. CLARK: Well, I have seen them. And the way they have to get them financed, if they can get them financed at all, is by going to some wealthy individual, some sugar daddy or angel, as they say; and if they get them financed in that way, it is at a sacrifice of 50 or more per cent of the stock, plus a very substantial rate of interest on the money that is lent. The result is to contribute to the concentration of industry in the hands of a few people and to lose the advantage of some of the small industries which have grown up by real hard work and real efficiency over a period of years. Then in the third place, if I may just make this point very briefly, I think the taxpayers will be far sounder, far better protected if, as a result of this and other measures, we can get this economy working fully, expanding, operating soundly, with no sound credit needs left unsatisfied. I think the taxpayer and everybody else in the community will be far better protected and far more prosperous if we can do that.

Mr. KINLEY: Mr. Chairman —

The CHAIRMAN: Pardon me, Mr. Kinley, but I think Mr. Gray asked for the floor some time ago.

Mr. GRAY: I wanted to ask Dr. Clark a question. I am disturbed, as a result of this discussion which has arisen,—and which I think is a very serious discussion,—as to how you are going to supervise these loans. My mind goes back to the committee on national housing some years ago, of which I was a member, and in which, as I recall, we had before us the making of federal loans to municipalities and provinces in connection with housing, not having the link-up that we have to-day through the lending institutions which could keep a close personal supervision over the housing loans. My recollections of the evidence that came out in the course of the committee was that, supervision being lacking, we had tremendous losses in connection with the loans—that is, the dominion government. Now, I foresee the very same thing happening here if we are going to lend, as you said, to remote industries that would not otherwise be able to borrow from a lending institution—small industrial concerns, say, unless we have some personal contacts such as are given by banks or trust companies—I foresee that very very serious loss to this country, and I would like to know what you have in mind as to this provision.

Dr. CLARK: In the first place, we did not lose any money as the result of the housing loans made after the last war. We lent our money to provincial governments, and I think that practically all those loans have now been paid back.

Mr. SLAGHT: Is that not the same taxpayer? It is the taxpayer we have to look after.

Dr. CLARK: I am telling you what the facts are. In the second place, when we went into the National Housing Act we provided for supervision of those loans; we made something over \$80,000,000 of loans during the last nine years and the losses have been under \$1,000.

Mr. GRAY: Because of lending institution close supervision.

Dr. CLARK: Because we also provided supervision and laid down conditions under which those loans could be made, provided for sound standards of construction, provided for a sound basis of lending which as somebody said yesterday, was an adaptation of the terms of repayment to the income conditions of the borrower and to the times at which his payments come in. I think the principle of monthly instalments for the payment of principal, interest and taxes and so on was the main operating feature in assuring no losses under those housing loans. Now, when we come to this Industrial Development Bank it is to be a subsidiary of the Bank of Canada, and in my opinion the Bank of Canada has got to set up probably the ablest set of bankers or people skilled in the making of loans that any institution has in this country; and it will have to provide that

supervision itself—that inspection and supervision; and I am sure that that is what will happen. I think you will be proud of the results of the working of this bank.

Mr. TUCKER: Might I ask you to explain a thought which has been in my mind this morning—I think the point has been covered, but I do not remember the explanation: why should this question of intermediate credits to be provided to small industries throughout the country be treated different from intermediate credits provided for farmers throughout the country?

Dr. CLARK: I think the minister gave the answer to that question in his speech on the second reading of the Bank Bill in the house when he was asked a question by somebody. The difference is essentially this: in the case of the Farm Improvement Loans bill and the home improvement loans that were made in the past we have had and will have a vast number of small loans that can be more or less standardized. We cannot lay down any detailed conditions to apply to these loans, and there will be a great number of them, hundreds of thousands of them, but we can apply a principle of pool guarantee as we have done successfully in the Home Improvement Loans and which I think will work out successfully in the new Farm Improvement Loans program. In the type of situation you contemplate for this industrial bank bill, you cannot lay down detailed conditions with anything like precision; you have to allow for discretion, efficiency, sound judgment, and in the second place the number of loans will not be great enough to give you the high degree of diversification that you will have in those other lending programs. That is the answer to the question.

Mr. SLAGHT: May I ask this: you tell us that the diversity of loans will not be great—

Dr. CLARK: Will not be as great.

Mr. SLAGHT: The bank staff which you visualize will be set up is here in Ottawa in the Bank of Canada headed by Mr. Graham Towers, the Governor.

Dr. CLARK: With the power to establish branches.

Mr. SLAGHT: Are you going to establish branches all over Canada? Think of the machinery you will extend. Take the case of a man who wants a loan out in Nanaimo or up in Cochrane or in La Pas in Manitoba, what facilities have these gentlemen in the Bank of Canada in Ottawa to make any personal check upon his personal credit or the type of security he is offering, the site of his business or anything else. You will have to set up a tremendous machine if you are going to administer this efficiently; and you would not have the nerve to write to the manager of a chartered bank in Nanaimo or La Pas and ask him to make a report to you on the financial standing of this sort of business. You cut clear and go outside of the chartered bank business. Don't you agree with me that the expense incidental to proper surveys to safeguard against risks will be out of all proportion if you are right in saying that you will only make a few loans?

Dr. CLARK: I did not say we would only make a few loans; I said that the loans would obviously not be made in the numbers that we had to make under the Home Improvement Loan Guarantee Act or will make under the Farm Improvement Loans Act. There were hundreds of thousands of loans under the Home Improvement Loans Guarantee Act. There will be hundreds of thousands of them under the Farm Improvement Loans Act. Under this bill there will be a much smaller number of loans. They will not run into the hundreds of thousands; they may not go into the tens of thousands; I do not know how many there will be. In the second place, of course we will have the nerve to ask for any information we can get from a bank which has knowledge of the particular business that is being carried on.

Mr. SLAGHT: May I interrupt you? If you do call the banker up about it and he has turned the loan down and reported to his head office and they will not touch it, what kind of report will you get from him?

Dr. CLARK: We will use that report in the way it should be used; we will not accept any report at its face value necessarily. In the second place, on the question of organization the power is taken here to establish branches and offices or agents throughout the country.

Mr. SLAGHT: That is one of the things that disturb me.

Dr. CLARK: As I look at it that will develop over a period of time as the demand for this type of loan develops; but I would also think it would be necessary—I wish Mr. Towers were here to speak about this—I think it will be necessary to have a travelling group of skilled loan or credit men who will go about visiting various sections of the country from which applications have been received. I do not look for any large organization to be built up, but I look for a very able and a very competent organization to be built up; it need not be large. Mr. Towers, in the early stages of the meeting of this committee, gave the committee some estimate of what he considered to be the probable operating costs of this business and what it might be expected to earn over a period of time.

Mr. SLAGHT: There are two points arising out of what you are telling us. You are aware, I have no doubt, that in this country in the last twenty years we have built up a magnificent organization headed by what are known as investment bankers to whom business men go when they have assets that would warrant a small bond issue or a preferred stock issue, and those investment bankers have tremendously assisted in the development of industry in this country. That is what they are for. You are, apparently, going in to compete with them in as far as you have in mind the fact that you are going to lend to a fellow permanent capital to put into a factory when he has not got assets that are sufficient to warrant the ordinary lender in lending the money to him. The second point is this. Under item 2 of section 15 you are going to lend to receivers, managers, liquidators appointed under any winding-up Act, or a custodian, interim receiver or trustee under the Bankruptcy Act, and so on. You are going to lend money to that type of trustee. Take a town of 10,000 or 20,000 people. There have been three merchants carrying on in the same line of business there for twenty years. One fellow has become a drinker, has had bad judgment and his business has gone to pot. He has gone into bankruptcy. The two other merchants by thrift and their wives working early and late have built up sound businesses, and the taxpayers' money is going to be used to finance the bankrupt to go on again at the risk of repeating his performance in competition with the two men who have earned the right by their own hard labour and thrift to carry on without competition from the Dominion of Canada in their own town, because that is what you are doing. The Dominion of Canada is stepping into that town and financing the bankrupt as against the two solid merchants. I see Mr. Coldwell here. It is exactly along the lines of nationalization of the banks. If he nationalizes the banks he would set up a department where they would lend even though the officers of the chartered banks he might be going to employ would tell him it was a bad loan. We are going into the bad loan business.

Mr. FRASER (*Northumberland*): Would you permit an interruption?

Mr. SLAGHT: Certainly.

Mr. FRASER (*Northumberland*): I would suggest that the name of this bank be changed to lame ducks incorporated.

Mr. SLAGHT: Sure losers incorporated would be another good name for it. Suppose the taxpayers were asked to go in and finance a man who has made a failure of his business, or a trustee in bankruptcy until he gets back into it

again; are we not going a bit mad in what we are attempting to do with public money? If you are going to go in for full nationalization of the banks and all industry in this country that is one thing, but I thought we were to keep the government out of business and let it supervise business but not participate. Take the case where the taxpayers under this bill lend a man \$50,000, he staggers along for two years, or his trustee in bankruptcy does and then it is a total loss, or 2 cents on the dollar. You are out that amount of money. How can you justify that when you went into it with your eyes open and loaned money to a man who could not get it from anybody in the money lending business?

Dr. CLARK: If I may answer that, I think there are two points. Let me take the second point first. In dealing with that second point Mr. Slaght was speaking of the three merchants in a town. This bank could not lend to any merchants at all.

Mr. SLAGHT: I meant carrying on their little industries.

Dr. CLARK: It would be an industrial enterprise. There would not likely be three competing ones of the same kind in the same town, but that is not important. If you think you cannot trust the Governor of the Bank of Canada and the organization he will build up not to make loans to bankrupts, as you say, with a few other adjectives, I do not think you should consider this at all. This is not for that purpose. It is for the purpose of enabling small industrial enterprises, primarily small industrial enterprises or medium-size enterprises, to remain alive or get going and to obtain money where they cannot otherwise get funds through the ordinary commercial channels. I do not think it contravenes the principle at all about the matter of nationalization of the banks. This is a bank which is intended to do things which private enterprise cannot, in the nature of things, do.

Mr. SLAGHT: Have you read sub-clause 2?

Dr. CLARK: I have read the whole bill. It is intended to do the things which private enterprise is not capable really of performing, and I have seen it operate in this country and in the United States. The need is real, I can assure you from my own personal experience. Let me take your first point, which was that the investment bank, the bond house, could finance all these things. Have you ever gone in to an investment bank or a bond house to try to sell a bond, a debenture issue or a stock issue of a little business that is unknown, without a long record of earnings behind it? They cannot do it.

Mr. SLAGHT: Why not? Because the risk is too great.

Dr. CLARK: No. It is not that at all.

Mr. SLAGHT: Of course it is.

Dr. CLARK: Because all that a bond house does is to retail the bonds, debentures or shares of stock of an enterprise; and unless that enterprise is well known to the public and has a long substantial record of experience behind it, a bond house—and I speak from personal experience in this also—cannot sell the securities of such a concern or certainly cannot sell them except at perfectly fantastic prices, which the little business cannot stand.

The CHAIRMAN: May I ask a question here? You have used the words, Mr. Deputy Minister, several times—

Dr. CLARK: Perhaps I spoke too fast.

The CHAIRMAN: —“small and medium”. Would you please speak in actual figures in that respect? What do you mean by “small and medium”?

Dr. CLARK: It will vary a bit, depending on the type of financing you are thinking of. But let us take this last type of case that we have been dealing with, the securities of a business to be financed by an investment or a bond

house. In New York it is known—it is an established principle accepted by everybody—that you cannot sell at any reasonable price a bond or stock issue less in amount than \$1,000,000, or about \$1,000,000.

The CHAIRMAN: Take Canada. We figure differently.

Dr. CLARK: Coming to Canada, then—

Mr. SLAGHT: We are not comparable at all with New York.

The CHAIRMAN: No.

Dr. CLARK: I am coming to Canada.

The CHAIRMAN: Let us allow the deputy minister to continue.

Dr. CLARK: I would say in Canada that, normally, if your issue is much below \$500,000, it would be practically impossible to get it financed unless for some special reason the name of the firm and its reputation was widely established over a long period of years as the result of the product it produced or some special high earning capacity. In a few exceptional cases you could probably sell a bit of an issue of \$200,000 or \$300,000. But normally, it would be exceedingly difficult to get a bond house or a syndicate of bond houses to take an issue much below \$500,000 in this country. You can perhaps do it in some of the local markets; perhaps, say, in Vancouver a local house could put away an issue of \$100,000 or \$200,000. But I am speaking of the general situation, the practical situation.

Mr. FRASER (*Northumberland*): May I ask a question?

Mr. TUCKER: In regard to that—

Mr. KINLEY: Mr. Chairman—

The CHAIRMAN: Mr. Kinley has the floor.

Mr. KINLEY: I think you struck an important point, Mr. Chairman, when you asked the witness what would be the amount they could loan.

Mr. SLAGHT: Hear, hear.

Mr. KINLEY: The deputy minister has stressed that this is for the help and preservation of small industries. I think we should keep it there, and if we keep it there we are on fairly sound ground. I agree to a large extent with what Mr. Slaght and Mr. Gray said about the hazards of this kind of business. If we, by government intervention, bring into play uneconomic forces in the industry of this country, we are not only destroying the industry that we hope to help, but we will destroy the others which are around it, because you can create a situation that will bring about chaos, and if you do that then you are in a bad way. I am quite well aware that there is a gap, and the reason for this legislation shows that there is a gap. That gap is there because there are a great many people in business or who want to go into business who cannot get money from the banks because of the circulatory form of their short loans, and I would say that the security would not appeal to the lending companies and other people who lend money in Canada. Now, there are large war time industries in Canada which are not economically sound; they have been built up on a war time economy and must go out after the war. Every man in industry to-day will get the idea of preserving himself after the war and we must be especially particular for the preservation of what is sound and cut out what is unsound; because the unsound will destroy the sound, particularly if there is government paternalism to help them along. Mr. Slaght's argument is an indictment against the bill. I do not see how it helps the amendment. His argument is an indictment against the whole bill. If you are going to restrict it so you cannot invade private lending industries to an undue extent then that helps the bill. But I do think, Mr. Chairman, and I want to sound the suggestion here, that we should see to it that there is a ceiling on the lending power under this bill so that its purpose will be to help out the people in small

industries who may have a scientific or mechanical merit—perhaps they have something that is peculiarly adaptable, but they have no capital. If we do that we will be doing a service, but if we allow this to go into big money that is another thing. For instance, there are a lot of war industries in this country that have machinery loaned to them by the government, millions of dollars worth of machinery, and they may come to the government and say, "Lend us the money and we will buy this machinery", and they will carry on industry against the private industry of this country. Do you think that will be sound or fair? We must guard against that. I do not think that should be injected into the economic stream of this country. Therefore, we should keep this where it belongs, as a road for the vehicle of small enterprise. Notwithstanding anything that the government says about million dollar bond issues in New York, in the maritime provinces I know of people who have \$50,000 or \$100,000 and that is considered a big issue in the maritime provinces. I want to preserve this for that type of industry in this country, and I hope it will have some consideration by this committee.

Mr. SLAGHT: The bank will not need any inner reserves.

The CHAIRMAN: Shall we adjourn until tomorrow morning?

Mr. TUCKER: Mr. Chairman, we sat for half an hour to-day waiting for a quorum, and if our quorum had been reduced to ten we could have worked during that half hour.

Mr. SLAGHT: I would move that we reduce the quorum.

Mr. TUCKER: I second that motion.

The CHAIRMAN: We do not need a seconder or a resolution; the resolution has been passed by the committee, and I intended to report it this morning but was not given an opportunity. Now, I want to say this that we sat for fifteen minutes before we had ten members present and we had waited twenty minutes before we had fifteen members present.

Mr. TUCKER: Why has not the quorum been reduced to ten?

The CHAIRMAN: We have a motion; we have passed a motion to that effect. It was passed in your absence.

Mr. KINLEY: You must realize that this morning in the House of Commons there was a financial bill of importance before the house and many of us wanted to stay there as long as we could for the purpose of getting the principles of that bill explained. That is the reason why some of us were a little late.

The CHAIRMAN: We will adjourn until 4 o'clock.

The committee adjourned at 1.05 o'clock p.m. to meet again at 4 o'clock p.m.

AFTERNOON SESSION

The committee resumed at 4.20 o'clock p.m.

Mr. FRASER (*Northumberland*): Mr. Chairman, I should like in a preparatory way to ask either the Deputy Minister of Finance or the parliamentary secretary of the Minister of Finance one or two questions. Under this bill is there any provision for the percentage or contribution of private capital in an enterprise before the principals can procure credit under this lame duck incorporation of yours? Shall I repeat my question? Is there any provision in this bill whereby the principals of an industry applying under the bill must provide a percentage of capital before their loan is considered by the board that you propose to set up under this Industrial Bank?

Dr. CLARK: There is no percentage requirement. That, it seems to me, must depend on the judgment of the men in charge of the bank. There is no percentage in the Bank Act, for instance, governing loans that may be made by a private bank.

Mr. FRASER (*Northumberland*): May I interject at that point that when a borrower approaches a chartered bank for a loan the management of the bank will carefully scrutinize not only the business experience of the borrower but will insist that the borrower has contributed either in the way of collateral or by way of investment of capital a certain percentage of the money that is to be employed in the enterprise. My question is under this Industrial Bank bill is the borrower in any way obligated, apart from the judgment of the board or the management or the executive or the examining roving investigators, to supply part of the capital to be invested in the industry? That is my question.

Mr. SLAGHT: The answer is "no".

Mr. FRASER (*Northumberland*): I want to get the answer from the witness. Is there any provision for that?

Dr. CLARK: There is no provision requiring any specific percentage of capital to be invested by the owners of the business. I do not see how you could in legislation provide for a uniform percentage that would be applicable in all the variety of cases. There is under section 16 provision for collateral security.

The bank may take, accept or acquire and may hold collateral security of any kind and in any form for the repayment of any loan made or guaranteed by it under this Act, and without limiting the generality of the foregoing, may for such purpose take, accept or acquire and hold as collateral security (a) stock, bonds or debentures of municipal and other corporations, whether secured by mortgage or otherwise, or dominion, provincial, British, foreign and other public securities; (b) warehouse receipts and bills of lading; (c) goods, wares and merchandise; (d) mortgages or hypothecs of any real or personal, movable or immovable property.

Mr. FRASER (*Northumberland*): May I submit to the witness that it has taken him just two minutes and thirty seconds to re-read that section which I have read myself and which has no bearing on my question. They can accept that security, but my question is a direct one. Is there any provision under this bill whereby the principals of an enterprise or an industry are obligated to invest a percentage of the total capital prior to the time that taxpayers' money is invested in that industry? That is my question. Is the answer "yes" or "no?"

Dr. CLARK: I answered "no".

Mr. FRASER (*Northumberland*): Then, in my humble opinion this is indictment No. 1 against this bill. Now, No. 2; it is provided under this section of this bill that taxpayers' money, money of the chaps who produce wheat, potatoes, eggs, beef, can be used by the government of Canada under the authority of this bill to finance competitive industry. Is that correct?

Dr. CLARK: It could be.

Mr. FRASER (*Northumberland*): It could be. It is possible under this bill; is that right?

Dr. CLARK: Yes.

Mr. FRASER (*Northumberland*): Question No. 3 is under the provisions of this bill—

Mr. SLAGHT: Is that an indictment or just a sideline?

Mr. FRASER (*Northumberland*): That is indictment No. 2. Would you mind just checking on the gun barrel as I go along and just make one notch at a time because I will have plenty of notches. Under this bill we provide that the government of Canada with bureaucratic authority transferred, transmitted and embodied in a board of governors or board of directors set up under the Bank of Canada can walk into the financing of an industry in liquidation. Is that correct?

Dr. CLARK: I am not quite sure what you mean by that.

Mr. FRASER (*Northumberland*): You took two minutes and a half to read a certain section so I will read you just two lines.

A receiver, a receiver and manager, a liquidator appointed under any winding-up Act, or a custodian, interim receiver or trustee under the Bankruptcy Act.

That is why I used the expression this morning that this bill should be entitled lame ducks incorporated. Under this bill power has been transmitted and transferred by the government of Canada to a board through the auspices that you yourself mentioned this morning to finance a defunct industry. Is that correct?

Dr. CLARK: You can make loans to an industry which has got into trouble and is in the hands of a receiver or liquidator. That does not mean that those loans are bad loans. As a matter of fact, a good many securities issued by receivers are better than any other security issued by the particular company.

Mr. FRASER (*Northumberland*): I am glad you have answered my question in that way because I have had something like forty years experience in business in this country. When you say to me that a loan advanced to a receiver or liquidator may be better than a loan advanced direct to an industry you are 100 per cent correct, and I will tell you why, because the liquidator has washed out all the equity of the shareholders, washed out probably a bank loan, has only been governed by the statutes as to the security he can retain, and secures the residue of a business that finds itself in that deplorable condition through bad management, through misjudgment, through a multiplicity of conditions, and you are asking us as a committee to authorize the government to pass a bill whereby we as taxpayers take the position of the defunct shareholders, with washed up collateral—oh yes, that is exactly what you said a minute ago, because the only way a security of a liquidator has value is because he has gathered together the residue of a business after it has passed through the wringer of liquidation. What we are asked to do as a committee is to pass a clause in a bill where the public's or the taxpayers' money will be used as a financial nursery and a cleaning establishment for a bunch of nitwits who could not run a business.

Dr. CLARK: It is not necessarily that same group at all; it may be an entirely different group.

Mr. FRASER (*Northumberland*): I beg your pardon?

Dr. CLARK: It may be for an entirely different group, to bring that industry back on its feet again and make it a well-managed and efficient industry.

Mr. FRASER (*Northumberland*): Let me tell you—

Mr. RYAN: The object is to save the industry, is it not?

Dr. CLARK: I beg your pardon?

Mr. RYAN: The object of this bill is to save the industry?

Dr. CLARK: That is so.

Mr. RYAN: And not save the people.

Mr. SLAGHT: Mr. Fraser, will you allow me a question on this last answer?

Mr. FRASER (*Northumberland*): Yes.

Mr. SLAGHT: You say this new loan will go to benefit an entirely new group?

Dr. CLARK: I said it may.

Mr. SLAGHT: Well, it may.

Dr. CLARK: And probably would.

Mr. SLAGHT: May I point out to you that it cannot. When you lend to a liquidator, the concern is still in liquidation or he will be discharged; and when it is in liquidation the new crowd have not come in. Why on earth do you not wait until the liquidator has sold to the new crowd and let the new crowd coming in borrow the money?

Mr. McILRAITH: The answer to that is that they may go to swell the number of large monopolistic firms which are gobbling up all the small industrial activities as they get started, and they will put them out of circulation and keep them out of circulation. That would be a very bad thing for the country.

Mr. SLAGHT: Is that an excuse for lending to a bankrupt concern?

Mr. McILRAITH: It is not a matter of lending to bankrupt concerns. There are plenty of thoroughly good concerns in this country, small businesses which by the very nature of the smallness of their business, get into very acute financial difficulties even to the point of having a liquidator appointed.

Mr. SLAGHT: All right.

Mr. McILRAITH: At that point, what are you going to do with them, if they are a sound, good type of industry which we need badly in this country? You can do several things. You can do what is sought to be done by this bill—use some of the funds, make a loan to them, get them straightened out and on their feet

Mr. SLAGHT: Who are the "they" that you are getting straightened?

Mr. FRASER (*Northumberland*): On a point of order, Mr. Chairman, who has the floor?

The CHAIRMAN: I think you have been dispossessed.

Mr. FRASER (*Northumberland*): Mr. Chairman, I submit that I do not want to be caught—

Mr. CHAIRMAN: Let us allow Mr. Fraser to continue.

Mr. FRASER (*Northumberland*): I do not want to be caught between the millstones of two eminent lawyers.

Mr. GRAY: Go ahead.

Mr. McILRAITH: Yes, go ahead.

Mr. SLAGHT: Proceed.

Mr. FRASER (*Northumberland*): My friend the deputy minister agrees that we are authorized under this bill to finance industry in liquidation. That started an argument between my two legal friends here. I know nothing about law. What law I get I pay for and I scrutinize it carefully before I accept it. What I want to say to you, Mr. Deputy, is this—and I repeat it with humility: My experience over forty years in businesses that have failed is that it is exactly like playing the stock market; and for the benefit of the members of this committee I say this from bitter experience, that when your broker calls you on the stock market for margin, always tell him to sell your stocks and to get you out. Never cover on margin. That is a little advice that is not legal, but that will be productive of dividends. Never cover on margin because you get stung; and seldom bother with a business in liquidation without entering that category of intense analysis that is only brought to bear, in my experience, by those gentlemen who originate in Jerusalem and who know more about business wrecking than I do, without you can buy it at a wrecking price. But to walk in and ask this committee to endorse over the taxpayers' money in the endeavour to recover from a business in liquidation, from my experience—

and I use this word, Mr. Chairman, with deference—is assinine. When a horse—and I have had a lot of experience with business and horses—of mine gets the glanders in the lumber camp I tell the foreman to take it out and shoot it and put another one in the traces that can draw his fair share of the load. That is a good simile to use at this time. When we ask for a contribution of government funds to doctor a horse with glanders instead of shooting the horse and getting rid of it, I submit, Mr. Chairman, it is bad business tactics and it should be excluded and eliminated from this bill.

Mr. MAYBANK: Mr. Chairman, just at this point, with regard to that simile, would you not think there is a quite a number of businesses which at times reach the position of having a receiver appointed which, however, could be rescued and are consequently not at all like a horse with the glanders.

Mr. BLACKMORE: It is a horse with a sore shoulder.

Mr. FRASER (*Northumberland*): No. I say it is like a horse with the glanders or a cow with Bangs' disease. The percentage of recovery is low.

Mr. MAYBANK: Your argument would only be sound—

Mr. FRASER (*Northumberland*): I object to the legal profession interrupting me—

Mr. MAYBANK: I asked for permission.

Mr. FRASER (*Northumberland*): —when I am trying to make a homely business man's analysis of this bill.

Mr. MAYBANK: I think I should point out, Mr. Chairman, that Mr. Fraser agreed to the interruption. I would never have interrupted without his consent.

Mr. GRAY: Go ahead.

Mr. JACKMAN: Carry on, please.

Mr. FRASER (*Northumberland*): Now, I have dealt with the business in liquidation, and my humble opinion is that that is a bad clause in this bill.

Dr. CLARK: Would you not agree with this? Let us take the investment field. Receivers' certificates are more common probably in the railroad business than in any other field. I think you will find that receivers' certificates have the highest rating as an investment of any security issued by the railways.

Mr. FRASER (*Northumberland*): Mr. Chairman, I never realized before that the deputy minister was such a close ally of mine. He not only makes a suggestion to me but he gives me opportunities that are unparalleled as far as reply is concerned. I agree with you, and I agree with you for reasons I was going to bring up in a minute or two. I ask you this question: Why have we had receivers in railways? We have had receivers in railways for the reason that governments financed uneconomic railways.

Dr. CLARK: But, Mr. Fraser—

Mr. FRASER (*Northumberland*): Excuse me just a minute till I finish. —because we threw across this country in many, many, instances a ribbon of steel and ties that should never have been built. In doing that, though the public was served, but uneconomically. These railways were built by speculators and promoters. I am laughing to myself over something I cannot mention at the present minute. But speculators and promoters built those railways and the government found those railways on their doorstep; and as a result, receivers' certificates were issued with government backing. That is why they were acceptable to the financial interests. That is the answer to your question, my honourable friend.

Dr. CLARK: I was thinking rather of the United States where receivers' certificates have been very common in the railroad field and where there has been no government backing.

Mr. SLAGHT: Let me suggest, Mr. Chairman, that if we are ever going to finance a railroad in liquidation under this bill, that would be nonsense.

Dr. CLARK: No, no. I was just using the illustration of a railway certificate and its standing in the investment field.

Mr. SLAGHT: Let us stick to the receivers who might get loans under the Act.

Mr. FRASER (*Northumberland*): In other words, the witness made an error in ever bringing that up. If he wants to refer to the American railways, let me say that I happen to be a shareholder of several railways and I will sell the script like I sold the script to my honourable friend the other day. The American railways found themselves in the position—and I think the chairman checked you on this American quotation this morning—of having the bear by the tail. That is why, in Canada in at least three instances I can quote, receivers' certificates were acceptable; and if that is your argument why that receivers' clause should be in every bill, I say it is indictment No. 3 and the worst indictment of the three.

Dr. CLARK: All I was saying was you might have a very good security with a high investment rating in the case of a loan to a receiver.

Mr. FRASER (*Northumberland*): And that is why we have torn up between the city of Belleville and the city of Toronto 115 miles of steel and ties and fill and bridges. Don't let us bring that into the argument because that certainly does endorse what I have said, and weakens what you say in connection with this liquidation clause.

Let me go on one step further. In this bill you have admitted, No. 1, there is no investment necessary by the principals.

Dr. CLARK: There is no legal provision for the amount of such investment, but no board of directors and no manager of this bank would make a loan unless there was some.

Mr. FRASER (*Northumberland*): I am not so sure. They have done it before. In this case we are dealing with the taxpayers' money. They have done it before and their money has gone down the sewer, and you and I both know it. You have admitted there is no requirement for any pro rata investment by principals in any industry under this bill. You have admitted that, haven't you?

Dr. CLARK: Yes. I say if you think the manager of this bank is going to allow that sort of thing—

Mr. FRASER (*Northumberland*): I have lived long enough not to think. I have lived long enough to know weaknesses of human nature and to witness the misjudgments, and as I said sitting in this committee, the admitted misjudgment of the best bankers of the Dominion of Canada. I do not want at this time to go into a resume of what happened between 1926 and 1930; that is unnecessary; but what I know happened between those dates is sufficient proof and evidence to me that what you say is, at least, optimistic and is not borne out by experience after what has passed.

Now, let us go on to the next position. We are asked in this Committee to endorse clause by clause the bill that places the Dominion of Canada in the banking business—in the lame duck bank business, because you have said that it is in a banking business that cannot be carried on or taken care of by the chartered banks.

Dr. CLARK: That may be a very sound kind of business.

Mr. FRASER (*Northumberland*): It may be in your opinion, but it is not in mine, and I have grown as many potatoes and perhaps more than you have.

Mr. RYAN: It is the opinion of quite a lot of men in Canada.

Mr. FRASER (*Northumberland*): Well, I have only my own opinion, and if my opinion is not accepted it is o.k. with me, but I have a right to submit it.

Not only that, Mr. Chairman, not only have I the right to the submission of my opinion but I have the humility, the common sense and the respect to listen to the opinions of other people; and if my hon. friend has the right to submit his opinion, and he convinces me, I will be the first along with my friend Mr. Blackmore to accept his opinion and vote with him if he convinces me that his opinion is correct.

The third point is this. Do you think you can set up this bank, divorced from political influence? In the province of Ontario they set up what was known as the Agricultural Loan Board, and I visualized out in the beautiful waters of lake Ontario, an island with 426 acres in it—a beautiful island with trees and the possibilities for development for parks and for the grazing of sheep—the Ontario Agricultural Loan Board loaned \$12,000 on that island to a tea broker, and they found after it was washed up and ironed out that in conjunction with the hon. chairman of this committee we made an offer of \$500 for the island because we liked to see that emerald island on lake Ontario. Political influence. I say you cannot set up this bill without political influence.

No. 4. I am in industry, in an industry that has taken thirty or forty years to develop with hard work, thrift, application, and by working longer hours than other people were willing to work, making staves and lumber and growing potatoes and apples. Now, I am asked to endorse a bill whereby the government of Canada gets its hands into the taxpayers' money and finances, perhaps, in competition—uneconomical competition—people in opposition to my industry. Well, I am not so stupid as that, and I am not quite so stupid, Mr. Chairman, as a member of this committee, to permit any politically or judicially appointed body to set up a lot of roving investigators to tell somebody else whether they should be financed to the extent of 100 per cent uneconomically to compete with me in my industry. If I were as stupid as that I would not even be a member of parliament.

Mr. MAYBANK: I would not be so sure of that.

Mr. FRASER (*Northumberland*): That is what you are asking us to do. You are asking us to pass an o.k. on a bill whereby the board of directors or the board of management picked and chosen in the grab-bag method—that is the way it is done politically, there is no question about that—will use \$200,000,000 of the taxpayers' money, to go out and decide whether an industry with 100 per cent assistance is economical or whether it is not. Make a note of this. That is my indictment No. 5.

Let us go one step further. Who is to decide whether or not industry is economically sound or not? The man who is to decide that is the man who takes his hard earned money and capital and is ready to back that industry. I remember, Mr. Chairman, several years ago attending the annual meeting of the shareholders of a certain chartered bank in the Dominion of Canada, in the city of Toronto to be explicit, and I remember the president of that bank in his address to the shareholders that day making this statement—and it impressed me because I heard it in the byways and highways—he said: if we accepted and financed the conscientious ideas of the people who come to us to borrow money, believing in its entirety that all they lacked was capital to be successful in industry, this bank would be ruined. I have been a Member of Parliament for something like fifteen years. I refer to that only for this reason that in those fifteen years I have had hundreds or thousands of people in my office asking for favours, telling me their troubles, both of finance and of the divorce courts, and I said in this committee a week or two ago that hard luck and stupidity are twins.

Mr. TUCKER: Not always.

Mr. FRASER (*Northumberland*): If that is your opinion it is your hard luck and not mine. They are twins. I know something of humanity and of the

byways and the highways of this world; I have mucked with the worst and sat with the best, and I can tell you that what you are asking us to do under this bill is to set up everything from a bankrupt to, as I said a moment ago, somebody with the idea that if he had money he could make a success of business. Now, I have been caught. I am not smart. Perhaps I am indicative of a horizontal cut of Canadian citizenship. I am Scotch. I pride myself on my thrift. But I have been caught, and as Bobby Burns said: "Better men than me have been beguiled". I have had propositions put up to me. I have been in the mining business. I have worked mines on the west coast from Vancouver Island to Kirkland Lake and I wish I had never seen a mine. It cost me tens of thousands of dollars simply because the shoemaker did not stick to his last; because he did not stick to his potatoes, his lumber, his cattle and his apples. Because I thought I was a smart guy. You tell me you are going to pick guys smarter than I am and I am not smart. You are going to pick a horizontal run of bankers, economists, professors or academic thinkers who wander in the clouds and let them dip into \$200,000,000 of the taxpayers' money in the Dominion of Canada under the flexibility of the clauses of this Industrial Bank Act. I say to you, Mr. Chairman, that when I think through on this thing with the hard-boiled complex of a chap of fifty-eight years of age who has come up the hard way I do not think that the taxpayers' money should be spent, as I said, through the flexible clauses of this Act to create uneconomic businesses, to create competitive businesses. Who thought this thing up? You? Who thought this thing up? Who are the father and mother of this thing? Do you want me to tell you? I know something about it. I know something about where these ideas originated and I say to this committee that at least in one or two cases on my payroll they could not make \$200 a month, and I am referring to you. I know where these ideas started and I know where they developed.

Dr. CLARK: You must know more than I do.

Mr. FRASER (*Northumberland*): In all modesty, Mr. Chairman, I refute that statement because I know much less than the hon. deputy minister, but what I learned I learned by shaking potato bugs off potato plants and knowing where they fell, and how many potatoes are in a hill. I did not read it in books. I have no M.A. or B.A. after my name. I am just a student, scholar and graduate of the school of hard knocks where you learn things by bitter experience, where you learn that if you do a certain thing a certain thing is bound to happen and where if you put people to do things they are not accustomed to doing somebody pays the shot. That is what I am afraid of under this bill.

I want to take just a minute or two—and I apologize for taking up the time of the committee—to make a brief reference to my good friend, Mr. Ryan. I am not unsympathetic to small business. I have had to operate small business, and as Kipling says: "I have patched and coaled on credit and lived God knows how." Every time I put my foot on the rung of the ladder and it stuck and I could not get it a foot higher it did me good. I am glad I am not a ward of the state. I am glad I am not the result of a government incubator that would have the effect of producing business morons at the expense of the taxpayers. I am glad of that. I do not want you to do it. I do not want the minister to do it. I am in favour of this bill with proper restrictions but to me to go and say to Tom, Dick and Harry that under the discretion of a board set up and picked from God knows where you have the right to apply for government funds because you have a brain storm—oh no, not I. It is not a system built on logic, practicability, experience or facts.

Let me go one step further. This is a very important factor. How is this board of referees or board management going to decide whether certain industries are over-expanded or not? How are you going to decide that? How are you going to decide whether there is too much canned goods being

packed, too much lumber being produced, too many baby carriages or gramophones? Whose decision is that going to be? Some academic chaps who have read in a book that if on Monday morning you do so and so on Tuesday afternoon, provided it does not rain, a certain thing will happen? Is that it? That has been my experience as to what happens. Across the whole of the Dominion of Canada you have got tombstones on the highways and byways of industrial progress in this country where business has started that was not economical, where business has started and because of the geographical conditions, raw material conditions, transportation conditions, financial conditions and the inclinations of the principals involved in that business, it has fallen by the wayside.

Let me say to you that I have lived in this life the hard way. I hope this will go down because it is extremely important. I have had many men work for me and, as I said a moment ago, I have had a lot to do with business the hard way. I am thinking of a young fellow who might apply under this bill, John Jones, 22 years of age. John Jones at 22 is not John Jones at 26. John Jones at 26 is not John Jones at 22, unmarried. As time passes on John Jones has two or three children and there is another John Jones. As time goes on he becomes another John Jones. Are you going to set up a board of directors who are going to follow the ramifications of John Jones?

Mr. McGEER: You are not speaking from experience on that?

Mr. FRASER (*Northumberland*): Yes, I am speaking from experience, but not in the connection you mean. I am speaking of the John Jones who ages on the altar of experience. I know how they change. They are not the same under the June sun as they are under the December sun. I submit to the minister and deputy minister these are things that must be taken into consideration and must be provided for under this bill by protective clauses.

I just want to mention one or two matters. Is it a good policy, is it a practical policy, is it a proper policy—and I am thinking of a lot of things right now—in the long run vision of the development of this country for the government to enter into the financing of business under the judgment of a board that may be set up? Let us think of this thing from another angle. Cooperatives could come to this industrial bank and ask for financing. They might receive financing. They are exempt from profit taxation. Cooperatives across this country can come and ask for financing and probably receive financing in competition with established business which is subject to taxation under our laws.

Mr. TUCKER: They would be a better risk if they do not have to pay taxes.

Mr. FRASER (*Northumberland*): I am glad my hon. friend said that. I entirely agree with him, but whether they are a better financial risk or not are they an economic risk? Have we any right out of taxpayers' money to set up a better financial risk because they are exempt from taxes? Do they contribute to the public treasury? There are certain people in this country to-day who are anxious to set up that kind of cooperative enterprise with taxes paid by the great mass of the Canadian people and in competition with legitimate industry.

Mr. TUCKER: They benefit the people who belong to them.

Mr. FRASER (*Northumberland*): That is your idea. I have seen it work. It is a fine thing if somebody pays the taxes and somebody else makes a profit. Change your law and tax the cooperatives on their profits and then I will look at this bill from a different viewpoint. In other words, across Canada under this bill and under the discretion of this picked board, perhaps not picked by this government but by other governments, you finance the cooperatives in competition with established industry to-day. My experience—and I have had some with cooperatives—is that after all is said and done a good man may be a good man but not always a wise man. As I said a minute ago it is always dangerous to put somebody doing something that somebody is not accustomed to doing. If

we want legal advice I submit to my hon. friend we go to my hon. friend, but if I have an appendix affection I do not. I go to a doctor. I say that this bill will provide an avenue whereby you will divert from the custom of doing things in a practical way to people who have ideas, optimistic, enthusiastic, energetic people who feel if they only had the money they could do so and so. That has happened time and time and time again in this country. That is one of the dangers of this bill. There is another factor and this applies not only to this bill but to other bills. What are we doing in this country to-day? What are we proposing to do? We propose to do certain things under different Acts. We are proposing to do it again under this Act. I am producing canned goods in Picton, Ontario. Some chap develops the idea that he should put up a canning factory in Bloomfield, Ontario, so he goes to the board of the Industrial Bank and he says, "This is a perfectly legitimate idea. All I need is the money. I have got the idea. I can hire those with experience to pack canned goods." My friend, Mr. Tompkins, knows and I will refer to the canning industry, the paper industry, the steel industry and half a dozen other industries across Canada—that one thing that has cost the people of Canada and the investors of Canada and the industry of Canada millions of dollars is over-expansion of industry.

Mr. RYAN: That was not done by the government.

Mr. FRASER (*Northumberland*): I am not saying it was done by the government. I am saying that the government now proposes to do it.

Mr. TUCKER: Will they necessarily make more mistakes than these people you are talking about now?

Mr. FRASER (*Northumberland*): Will they make more mistakes?

Mr. TUCKER: Yes.

Mr. FRASER (*Northumberland*): You might just as well ask me where the fire goes when it goes out. This is the point and I am mentioning Mr. Tompkins because he has lived through it, and the hon. minister of finance has lived through it. What happened the paper industry? What happened the steel industry?

Mr. TUCKER: Who was running those industries?

Mr. FRASER (*Northumberland*): Never mind; I will answer you.

The CHAIRMAN: Suppose we allow Mr. Fraser to continue his argument without interruption.

Mr. FRASER (*Northumberland*): There is the grain industry in western Canada if you want to bring that into the picture. Who financed that? Who poured millions of dollars into western Canada? Who grew wheat on grazing land?

Mr. TUCKER: Private industry.

Mr. FRASER (*Northumberland*): I will not answer that question because I have got so many answers you will be stuck.

Mr. TUCKER: Why do you not give us some?

Mr. FRASER (*Northumberland*): I want to tell you that one of the most disastrous things that ever happened in Canadian industry the over-expansion of Canadian industry by ways and means we all know, ways and means that were provided with government assistance, financial assistance, lawyers and brokers and candlestick makers.

Mr. McGEER: What about the R.F.C. which saved the whole of the United States?

Mr. FRASER (*Northumberland*): I agree with that 100 per cent, but now we propose to come along in this bill in 1944 on the 2nd day of August and we are going to say to everybody who has an idea in this country, "You do not need any money; all you have got to do is to have a persuasive personality and

be able to submit your case to a board set up under political influence." I do not care what government is in power; you cannot divorce a movement of this kind from political influence, political pressure, if that is a better word, political pressure brought by groups because after all is said and done I am not referring to parties. I am referring to the system of party government which we have set up in this country. The leader of the C.C.F. party is here. A minister of the Liberal party is here. Some of those who have sat in the Conservative party are here. No government—and I do not care what government it is—can defy influence and pressure provided that pressure is strong enough. No government has ever done it since Confederation and no government in the future, regardless of how conscientious and sincere it is, will be able to divorce itself from that influence.

Now we are going to set up a development bank with \$100,000,000 of the taxpayers' money, subject to all the ramifications of political influence. You cannot get away from it. There is no argument about it. You cannot get away from it. You cannot change human nature. Two thousand years ago the Man of Galilee was crucified. To-day this world is submerged in the worst catastrophe that humanity has ever known. You do not change human nature. As Kipling said, "What you learn from the yellow and brown, will help you a lot with the white." I say, Mr. Chairman, that this bill should be modified, that amendments should be brought in whereby the public funds are protected, whereby a corresponding investment is made by the principals in any industry. No group of men should be left with an idea, as the basis for borrowing government or the public funds. The taxpayers' money should be protected to the extent of at least fifty-fifty. \$50 out of every \$100 should be included by the principals of any industry before any government comes along and contributes under that bill to that industry. Secondly—I said this before and say it again—as far as bankrupt industries are concerned, wash them out. Shoot them like I would shoot a horse with glanders, and put a live, healthy, rejuvenated management in its place. Sell the assets. Get what you can. Your first loss will be your least loss. As I said before, when the broker calls you on margin, tell him to take your stocks. They will stick you every time if you do not. Cut out this bankrupt clause. Put a provision in that bill where there is dollar for dollar contribution with the government by those who wish to enter any industry.

Now Mr. Chairman, I sincerely apologize to this committee for having taken so much time. I have only tried to interject what seemed to me, though perhaps not to other members of the committee, to be sound business sense. I hope I have not made any references that are objectionable to any one. That has not been my intention. I am very sincere in what I said. I wish to see this bill set up. I am not opposed to the bill itself, except that I think the bill should be modified so that it is strictly a hard-boiled, business document, framed—with the full knowledge of human psychology, with the full knowledge of human avariciousness, with the full knowledge of the things that have happened in the past—to set up a system whereby those who are appointed to administer the bill will be confined in an orbit whereby our economic setup will be protected and the public funds that are loaned will be protected for repayment. It must be borne in mind, that it has been acknowledged by the witness on the stand that this bill is set up to advance money to those who cannot procure money through the presently setup channels of credit. That to me is an extremely important factor. I said in this committee some days ago that if I could criticize the chartered banks, I would criticize them for the extension of too much credit, not too little credit. Do not forget this, Mr. Chairman: Many, many more men can stand adversity than prosperity. Many, many more men can face the hard way than can survive the velvet touch of prosperity, particularly under the generous award, consideration and contribution of public

funds where I say that not one man in ten has an appreciation that those funds are just as sacred, just as important as if he put his hand in his own pocket and took the cash. So I say, Mr. Chairman, that I think this bill should be very carefully scrutinized. I thank you kindly, my fellow members, for having borne with me as long as you have.

Mr. McNEVIN: Mr. Chairman, there are just two or three points I wish to make reference to. The first is with regard to the payment of taxes by co-operatives, referred to by the last speaker. Wherever a co-operative operates on the basis of share capital and there is a return on that capital, they are subject to exactly the same taxation rates as private business. But where you have a co-operative where there is not the slightest return from the capital, then it is simply a service organization and they do not pay those taxes. I view the purpose of this bill as preparing for the difficult post-war period. I think that most Canadian citizens will agree with me when I say this, that in the post-war period at the end of the first Great War, a substantial number of the smaller industrial concerns fell by the wayside for the need of some long-term financial assistance.

Mr. McGEER: Where did they ever do that?

Mr. McNEVIN: In the post-war period following the Great War.

Mr. McGEER: Where? Have you any examples in your hands? I know the industry of Canada pretty well, and I do not believe that is true.

Mr. McNEVIN: I can name any number of examples.

Mr. McGEER: Name one.

Mr. McNEVIN: Another thing that occurs is this. As the history or the civilization of any country gets progressively older, things happen to the small industries. Perhaps the proprietor passes out of the picture. Of course, taxes have to be paid. Many things happen. But changes take place, and I have noticed that where the smaller industries encounter difficulties in very many cases they are gobbled up by the great monopolies of the country. That has been the picture in many cases. Sometimes the industry is just simply taken over and the door locked. I can tell you places where there are breweries, places where there are metal working industries and several things. I do not want to come in and name certain industries that have passed out of the picture, where the members of the families are still living in that community. But those things take place and no one can deny that fact. Therefore I think that there is a substantial need in the country for such a bill as this, particularly as we are facing these difficult post-war years. As to putting a clause in the bill limiting the amount of capital that the institution must have of its own before the industrial bank could lend any money, I am satisfied to leave that to the judgment of the governor of the bank and those associated with him. I am quite satisfied that they are not going to go out and lend large sums of money on a shoe string and all that sort of thing. That is entirely aside from the real question. These men are sound, experienced, capable bankers and they are not going to go out and throw money into the sewer or anything like that. I think, as far as that is concerned, we can well trust the governor and the directors of the Bank of Canada with respect to the selection of the clients that will receive loans under this industrial bank.

Mr. SLAGHT: Mr. Chairman, I should like to put two matters to the deputy minister for his comment on them. They are new matters that have not been discussed heretofore in our committee, under this bill. The first is this. As I read subsection (d) of section 2, these loans would not be available to a market gardener, a grocer, a druggist, a hardware merchant, a general storekeeper in the country, nor to loggers, lumbermen, miners or prospectors. I have seventy-

four little sawmills in my own riding, operating on the average of about 1,000,000 feet of lumber a year. They have been very useful in wartime. They cannot get under this bill.

Mr. McNEVIN: Would you permit me a question, Mr. Slaght? Is it not true that in that type of business—and I have a large number of them also in the district that I represent—they operate on a yearly credit basis? They have—

Mr. SLAGHT: I would rather you make your comment later and let me put my questions now. Are we not enacting class legislation? What greater right have we to provide any easy access to the taxpayers' funds by the small man in industry than by the market gardener, grocer, druggist, hardware man or general storekeeper in a country village? Is it not class legislation? That is point number 1. My second point is this, and I will make it very terse. This committee considered the farm loan bill, which was a bill, as we all recall, whereby the country was going to risk the taxpayers' money to the extent of 10 per cent on loans to be made by the banks in the regular way. Before I point out, may I say that I think the farmers are very deserving people, and I think possibly we were a little stingy in the encouragement we afforded by confining ourselves to merely risking 10 per cent by way of guarantee. But we did, and we made the banks in making loans take 90 per cent of the risk. Now we come along to bankrupts and trustees in bankruptcy and derelict industrial concerns who cannot get loans from the people in the money lending business because their security is not good enough and we risk 100 per cent of the taxpayers' money backing that kind of loan through this bank. Why the discrimination? Why not encourage the farmer, if we are to go back to the farm loan bill, and back him to the extent of 100 per cent? Or why not cut down the backing that we are prepared to render to the worst type of business, if I may so put it, and the bankrupts? Why not cut that down so that the risk of the taxpayers' money is 10 per cent instead of 100 per cent? I should like to have the deputy minister's comment; and if Dr. Clark thinks that is a matter of policy, then perhaps the minister who deals with policy will prefer to answer.

Dr. CLARK: I might answer part of that. The first question I think was as to whether this bill was class legislation. I think the bill is designed to deal with the financing of enterprises which find it practically impossible or at least very difficult to get reasonable credit facilities through the ordinary private channels at the present time. That is what this bill is designed to do. The market gardener that you mentioned, Mr. Slaght, presumably is eligible for assistance under the Farm Improvement Loans bill; also under the Canadian Farm Loan Board Act for permanent capital. I do not think that there is any particular difficulty in a retail store or a logging concern getting the capital they require for their business. That kind of difficulty has never been presented to me. There are a lot of cases of this kind of industrial enterprise, new enterprises just starting up, or a small or medium size one that is expanding, and needs permanent capital for expansion purposes. The case of the logging industry, of the logger and of the retail store, it seems to me, is being efficiently handled by the existing credit channels, if you like.

Mr. SLAGHT: Then let me say this, Dr. Clark. Would you not agree with this, because I feel sure that the situation with regard to the small merchants to-day that I have enumerated—the grocer, the druggist, the hardware man, the general storekeeper—throughout Canada, by reason of our shutting down on the manufacturing of civilian goods, a perfectly necessary war sacrifice, and by reason of the terrific taxation which we have had to impose, is serious? I want to suggest to you that they are very, very close to getting into this class of being eligible under this Act by going into bankruptcy. They are finding it

very very difficult to finance owing to the shut-downs on civilian goods of all types that they have been heretofore accustomed to sell, and there are the restrictions. To suggest that they can go to the banker and get all they like and yet the broken-down industry can get it from the banker is, I think, class legislation. Now, there is a second point which you were going to deal with.

Dr. CLARK: Actually, retail store sales are higher now than they were before the war.

Mr. SLAGHT: Their financial position is higher?

Dr. CLARK: Their retail sales are higher.

Mr. SLAGHT: Oh, well, retail sales. You can sell lots of goods if you do not make any money on them.

Dr. CLARK: They are actually selling more than they did before the war.

Mr. SLAGHT: More in volume, but their financial position I tell you is strained in my judgment.

Hon. Mr. ILSLEY: What is the evidence of that?

Mr. SLAGHT: What is the evidence of that? The knowledge of men who talk to you about taxation eating them alive, and who are not able to get from the wholesalers the kind of goods their customers heretofore wanted. That is the evidence that comes to me.

Hon. Mr. ILSLEY: Taxation is only on profits. The main complaint from small business is that the taxation is too hard on them, that there is so much in excess profits; their profits are so greatly in excess of their pre-war profits that a very large sum goes to the government. That is the complaint of small business all over the country.

Mr. SLAGHT: Let that be so, Mr. Minister—

Mr. JEAN: They cannot expand that way. That is one of their complaints.

Hon. Mr. ILSLEY: They cannot expand; that is the complaint. Moreover—and I say this subject to correction if I am wrong—the figures of bankruptcies and failures are very much down.

Mr. SLAGHT: All right; but they have not been able to pile up any reserves. We let the banks pile up hidden reserves, but we do not let the merchant pile up his reserves, and the excess profits are taken away in bulk against the future. There is no chance for expansion. My suggestion is, and I believe it is correct, that if you take a poll of nine out of ten small merchants in this country you will find that that is the answer you will get.

Mr. JACKMAN: I will support the hon. member for Parry Sound. I think the difficulty of a lot of these small merchants is that they are handling a great deal larger volume than before but they haven't any means of getting more working capital because so much of the profit they make goes back to the government, and many of these merchants will find when all this is over that the substitute goods are no longer saleable because we will be getting quality goods again. Their shelves will be filled with these substitute goods, and they are going to face an inventory loss, and what they thought were profits will turn out to be losses. There are going to be many headaches and many of them are going to go into bankruptcy. I think if the hon. member for Parry Sound has not expressed that idea that certainly is the idea back in the mind of many of those merchants to-day.

Hon. Mr. ILSLEY: There is the fear that there will be a collapse in prices.

Mr. JACKMAN: Is it not because of price control, because there is a certain ceiling and there is some protection, but it is because of these substitute articles. Some stores in the States will not handle substitute articles for they know what is going to happen some day.

Mr. SLAGHT: What are we going to say to these men when they find out that we have passed a bill limiting help to the type of beneficiaries that we have described under subsection (d). They will say, "Why in the world was not I just as good a risk to borrow government money as my neighbour down the street?" They will say that this is class legislation. Now, what is the answer, Mr. Minister?

Hon. Mr. ILSLEY: Their difficulty is not lack of credit facilities.

Mr. SLAGHT: Never mind that. They need credit for expansion purposes. What are we going to say to them? Assume for the moment that you might be partly wrong and they do need it, or some of them. Why shut them out if they are in difficulties?

Hon. Mr. ILSLEY: They have plenty of facilities for obtaining credit now from the chartered banks.

Mr. RYAN: That is what the Retail Federation said, as long as the system is carried on.

Hon. Mr. ILSLEY: There are the trade channels as well.

Mr. JACKMAN: I hope I did not miss any formal statement by the deputy minister or by the minister—

Mr. SLAGHT: Does the minister or the deputy minister care to answer my second point as to why we put the restriction on loans to farmers and only risk 10 per cent and take the full 100 per cent risk in lending to business concerns which cannot borrow money from anybody else?

Hon. Mr. ILSLEY: I do not think the things are comparable at all. I think you are comparing two uncomparable things. The 10 per cent is a very large guarantee as guarantees go. Under the home improvement plan the loss was only half of one per cent or three-quarters of one per cent, and when you give a guarantee on losses up to 10 per cent you will enable very free lending by the chartered banks.

Mr. SLAGHT: Then why not do the same for the protection of the taxpayer? I think the taxpayer is the forgotten man in this case. Why not protect him by putting a 10 per cent restriction on losses that may be incurred on loans by this industrial bank by permitting those loans to be made through the chartered banks, the mortgage companies or the trust companies, and protect them to the same extent? You are bringing in two types of legislation, but I think you are in reality discriminating against the farmer by not giving a greater inducement to the banks to lend and then allowing us to lend to business that is unsuccessful the full 100 per cent of the taxpayers' money.

Mr. MAYBANK: May I ask an ancillary question? In one case we are endeavouring to stimulate lending to the amount of \$250,000,000 and we believe that that will take care of the farming situation. This is entirely different in its nature, of course. Was consideration given to some sort of scheme whereby banks could be encouraged to lend to people within the circle indicated by this Act by some sort of guarantee arrangement similar to the other one? I am asking as a matter of opinion whether it would have worked.

Mr. SLAGHT: That is involved in my question: why treat one one way and the other another way.

Mr. MAYBANK: I presume there is a sound reason for that; I want to know what it is.

Hon. Mr. ILSLEY: I am a bit confused by two or three questions, but I take it the question is why did we not apply the farm loan scheme to these industries instead of setting up an industrial development bank. That would involve a pool guarantee, would it not?

Mr. MAYBANK: A pool guarantee is what you had in agriculture

Hon. Mr. ILSLEY: Yes. Now, I am informed that a pool guarantee is not applicable to a comparatively small number or appropriate for a small number of large loans; it is applicable to a great number of relatively standardized small loans.

Mr. SLAGHT: Why?

Hon. Mr. ILSLEY: There might be a large loss in one and no loss in the other. You never could state the percentage that would have any meaning as a protection as you can in this other case.

Mr. MAYBANK: In the case of farm loans if you had \$1,000,000 or \$100,000 there would not be a great variation one way or the other, but you could not apply it here because there is too great a variety in lending in this type of industry—a radically different type of industry; is that the situation?

Hon. Mr. ILSLEY: Yes.

Mr. MAYBANK: That is the one could not be applied to the other?

Hon. Mr. ILSLEY: Yes.

Mr. McNEVIN: And in addition the banks are not permitted to lend on that type of security.

Mr. COLDWELL: I would like to ask a question if I may. I have tried to follow the discussion as best I can. When this bill was before the house on March 7 we gave some approval to it because we thought it was a step possibly in the right direction to provide a government-owned institution which would engage in banking under national ownership and control, and we also believed it was something in the nature of a planned investment without the risks that sometimes accrued to those not well informed in the field of investment. But to-day it seems to me that certain other aspects have been brought out by various questions, and I would like to get some answers to questions based upon those questions. Now, we are told that the purpose of the bank is to provide intermediate credits to industrial organizations that might not be able to get them otherwise; is that right?

Dr. CLARK: They might not be able to get them otherwise on reasonable terms and conditions.

Mr. COLDWELL: In other words, to fill a gap, I think you said.

Dr. CLARK: That is right.

Mr. COLDWELL: A gap in the banking system?

Dr. CLARK: That is right.

Mr. COLDWELL: What I have in mind is particularly the issue raised by Mr. Slaght, the issue of lending money to organizations that might be uneconomic or not be profitable to the investor. It seems to me that we have banking institutions and that those banking institutions have lent money on certain terms and at certain times. We have investment houses and investment trusts that have been lending money. Now, is not Mr. Slaght right in his argument that what we are actually doing is providing ways and means of financing uneconomic and unprofitable business that cannot obtain money because of their unprofitability? That is the way the argument has developed and it has rather interested me to see this phase of the matter brought out as it has been to-day. I should like to get some reply from the deputy minister to that statement.

Dr. CLARK: I will try to answer that. I will say that this is not to finance uneconomic industries at all; this is to finance industries that are perfectly sound economically, but that find it either impossible or difficult to get credit on reasonable terms and conditions.

Mr. SLAGHT: Why?

Dr. CLARK: For their purposes.

Mr. FRASER (*Northumberland*): Who is going to decide?

Dr. CLARK: I have tried to answer that before. There are a great many cases of small industries or medium sized industries that are perfectly sound, perfectly well managed, and making a good product and with a good market for their product and able to sell that product at a price—

Mr. FRASER (*Northumberland*): Who told you that, doctor?

Mr. SLAGHT: What is the matter with the banker when he will not lend to that kind of industry?

Dr. CLARK: What they need is not seasonal working capital which the bank is there to finance.

Mr. FRASER (*Northumberland*): No, no.

Dr. CLARK: The banks make loans to be cleaned up once a year; but what is here contemplated is capital that will be permanently in the business, that will be there for five or ten or fifteen or more years. If little businesses had that permanent capital they could get their working capital needs financed perfectly easily by the banks. It is permanent or intermediate or longer term capital they need. There are institutions other than banks that are supposed to fill part of the requirements of our economy for long term capital. One is the investment banking fraternity; but I tried to describe this morning some of the difficulties of small businesses getting capital through investment banking houses if they are not well known. If you have got a name like the Quaker Oats company, which is well established and popularized throughout the country, in existence for a long while, and what not, it is very easy to sell securities of that kind of a concern to the general public at a reasonable price, on the other hand, if you have John Brown and Sons in some little town, or something of that sort, it is extremely difficult and practically impossible to get an issue of \$50,000, \$75,000 or \$100,000 or so sold.

Mr. SLAGHT: Mr. Kinley's testimony is the exact opposite of what you are telling us.

Dr. CLARK: As I recall, Mr. Kinley said that in Halifax some of these have been financed. I said there are exceptional cases in local markets, but I have known a great many cases where I have sent small businesses of that kind to investment banking houses and tried to work out with banking houses deals for them, and it just could not be done. I have sent them to insurance companies and to trust companies.

Mr. SLAGHT: Do you not think that in these cases it could not be done because the men had not the experience and had not the necessary capital of their own to warrant a proper loan being made to them?

Dr. CLARK: Oh, no. They had the experience and they had a successful little business, a well-managed business. Nobody would deny that, but they had not the name and a long record of established earnings and a general public reputation in the investment world.

Mr. SLAGHT: Is that not pretty hard on the bankers in this country who are in the business to say that unless you have got an establishment like Quaker Oats you cannot borrow any money from the banks?

Dr. CLARK: I am not saying that.

Mr. FRASER (*Northumberland*): Will you permit a question?

The CHAIRMAN: I suggest we allow the deputy minister to continue without interruption.

Mr. FRASER (*Northumberland*): Would the deputy minister permit one question? I am very interested in what he says. I have listened to it very attentively.

Mr. TUCKER: I suggest that the deputy minister be permitted to finish his answer because there are other members who get ideas just the same as my friend.

Mr. FRASER (*Northumberland*): Will the deputy minister permit a question or will he not?

Dr. CLARK: It is all right with me.

Mr. MAYBANK: He is not in a position to say whether he will or will not.

The CHAIRMAN: I think I would abstain from questioning the deputy minister.

Mr. MAYBANK: The witness is in the hands of the committee.

The CHAIRMAN: I think we should wait until the deputy minister is finished.

Dr. CLARK: I am very nearly through. I was dealing with the case of the attempt to get capital, to get a bond or debenture issue or perhaps a stock issue sold through investment banking houses. If you have a well-established name, a name that is known generally, and if you have got a record of earnings and so on it is quite easy, but the smaller you are, the less well-known you are, the more difficult it is to do it, more and more difficult to do it. If you are a new business starting up you probably will not be able to do it at all. I know some very substantial groups that would like to start but find great difficulty in getting started.

The other possibility is to go to a trust company or an insurance company and there again you run into somewhat similar difficulties in certain cases because these institutions invest trust or semi-trust funds, and the insurance company or trust company may not be willing to make a mortgage loan on an industrial enterprise. So in general the small or medium size enterprise may have great difficulty in getting permanent or semi-permanent capital on reasonable terms and conditions even though it is perfectly sound, perfectly well managed and making a good product.

If I could speak about policy I would say that this is not intended at all to deal with bankrupt businesses or businesses that are bound to lose, sure losers, that kind of thing. It is intended to make possible enterprises which are sound economically and which will contribute to the national income and the national wealth of Canada.

Mr. COLDWELL: Does it not boil down to this, if I may follow my last question, that the Industrial Development Bank becomes necessary because private banks have not done the job they are supposed to do? Is that fair?

Dr. CLARK: If I answered "yes" I would not regard that as a criticism of private enterprise. I do not think that banks or insurance companies or trust companies or investment companies can be criticized for failing to finance the types of enterprise I have in mind. That is not what they are set up for. It is not appropriate for them to do it.

Mr. COLDWELL: As I understand the answer you gave this morning you do not propose to finance certain types of small industry. I remember someone asking a question this morning about the starting up of a new industry in a town and you gave an answer to this effect, that if there were already established industries of that type there then the establishment of a new industry would not be encouraged by the Industrial Development Bank.

Dr. CLARK: I do not remember saying that, Mr. Coldwell, but whatever I said this is what I meant, that you will have this bank managed by the board of the Bank of Canada headed by the Governor of the Bank of Canada, with the ablest, most experienced and competent management it can get. It will look at each application which comes before it and it will not make a loan that is bound to prove unsuccessful. It will not finance businesses that should

not be financed, that should not be allowed to go forward, but there would be cases in certain communities where you will already have existing businesses but where the economic demand might justify another unit, another enterprise. That will depend on the judgment of the management of the bank, and if you think you cannot trust the judgment of the bank you have set up, then, of course, I have no answer.

Mr. COLDWELL: I can see the validity of the argument advanced that if there are well established old firms, and new firms come into existence which perhaps are in danger of being smothered at birth or prevented from going forward because of the monopoly interests that may be in the same line of business that in the competitive system we are quite justified in encouraging these people and doing what we can to maintain them. I can see that, but the thing that puzzles me is that on the one hand we are told, when discussing the charters of the banks, that a private bank is so much more efficient than a publicly-owned banking system, and here we are establishing a publicly-owned industrial bank because the private organization will not or cannot do the job.

Mr. JACKMAN: On your premise you are right.

Mr. COLDWELL: It seems to me that the two positions are quite illogical. That is what I am puzzled about.

Hon. Mr. ILSLEY: May I say a word about that? There is a line to be drawn somewhere usually in the judgment of the person considering the matter between what he thinks is appropriate for public enterprise and what he thinks is more appropriate for private enterprise. We think that the line runs between the type of institution that this is and the type of institution that the chartered banks are. There is a big difference. I tried to explain that in the house. You may agree with my judgment or you may disagree with my judgment, but when you go into a field like the operation of the chartered banks, where you are dealing with millions of customers, where you are making millions of contacts with the general public, when you have huge staffs and huge personnel problems, when you have great numbers of branches and so forth, it seems to me that that is a much more appropriate field for private enterprise than for public enterprise. But when you are dealing with a situation like this, when you will only have a few branches, maybe ten altogether, when your personnel will not amount to anything much—maybe one hundred altogether or less; I do not know—in this Industrial Development Bank—

Mr. SLAGHT: You could not service all of Canada fairly and decently with ten branches.

Hon. Mr. ILSLEY: I think so.

Mr. SLAGHT: Oh, no.

Hon. Mr. ILSLEY: Oh, yes. I want to come back to the point that you raised, Mr. Slaght. But when you have a situation like that, you do not run into anything like the danger of political pressures that you do in the case of the operation of the chartered banks.

Mr. COLDWELL: I take the opposite view to that, that the fewer powerful customers you have, the more danger there is of pressure.

Hon. Mr. ILSLEY: No. I give that as my judgment.

Mr. COLDWELL: I take the opposite view. However, it is a matter of opinion.

The CHAIRMAN: Will you allow the minister to finish his statement?

Hon. Mr. ILSLEY: Everybody gets excited about these matters. But my experience would be that the pressure comes from numbers.

Mr. FRASER: (*Northumberland*): Right.

Hon. Mr. ILSLEY: That is where the pressure comes from.

Mr. JACKMAN: If it is a success.

Hon. Mr. ILSLEY: If the government got into a chartered bank system and had to turn down hundreds of thousands of applications for loans, that is where the difficulty arises and it comes from political pressure, and organized political pressure, because numbers are behind it. Numbers are not behind any such political pressure of this kind at all.

The CHAIRMAN: Oh, yes.

Hon. Mr. ILSLEY: Well, to a very much smaller extent. So it is a question of where the line should be drawn with regard to this Industrial Development Bank. I have heard for years—and I have never gone into it very carefully—that there is a defect in our lending structure here in Canada. People in my own province go to the United States and they discuss the situation with persons there. One gentleman, a member of the Nova Scotia legislature, was talking to me not so very long ago, and he said he undertook to defend the Canadian banking system and he was convinced that in some respects—that is, in respect of this type of loan—the banking system of the United States was superior to the Canadian banking system. It made for development. Mr. Mayhew here the other day was talking about something being wrong here in Canada because we did not get the development that we should get probably of small businesses in this country which they do get in the United States. The question is whether to try to get our existing privately-owned institutions in some way or another to step into that gap and fill it, or to set up a publicly-operated institution. I think that the point of danger of political interference, political pressure and so on is low in this case, very much lower than it would be in the case of the chartered banks; and I think we can get approximately the same degree of efficiency in running this publicly as we would if it were run privately.

Now I want to go back. I am not an enthusiast for public ownership and operation of business or financial institutions generally. I want to assure the committee of that. I would go very cautiously. I do not think we are running any serious danger in setting up this institution. Mr. Slaght says there is discrimination here because we are leaving out a lot of small enterprises which are not industrial enterprises. I do not know. I think he named some which will be eligible under this. What about saw mills?

Mr. TUCKER: Saw mills would be eligible.

Hon. Mr. ILSLEY: Saw mills would be eligible as processors. But if you get too great a number of small lenders here, we are getting into a different type of institution and we will have to have a very large number of branches, probably will have serious personnel problems, and we will be dealing with a very large number of persons. I think then we would be running into the danger of some of the inefficiencies that arise from public ownership and operation. I may say I have inquired from the officials and they tell me that there have been no complaints to date by the industries that are left out of this, or rather from the businesses that are left out of this. Industries are not left out. But the businesses that are left out of this have made no complaint of discrimination against them in this bill because they do not feel the lack of credit facilities. What they are complaining of at the present time is not lack of credit facilities. They are complaining about high taxes.

Mr. SLAGHT: The small merchants are not well organized, sir.

Hon. Mr. ILSLEY: They are pretty well organized. There was the Retail Merchants Federation here represented. They have their federations and associations. This is not the thing they are asking for. But let me come to this question of whether or not we are discriminating against the farmer because there is only a 10 per cent guarantee and here we can guarantee an individual loan to 100 per cent; that is the question Mr. Slaght asks if there is an answer

to. I want to point out that when you give a guarantee of a percentage such as 10 per cent, 15 per cent or 20 per cent or something like that, if you get beyond a certain point it is the same as 100 per cent if the lending institution is to exercise any care at all. We have been dealing with the banks over the last few years, and I think it is all right to say that the banks, in this class of guarantee, want a high guarantee, 15 per cent, 20 per cent or 25 per cent, because that takes the risk completely out of the situation. If you get too high a percentage, and it does not have to be so terribly high—that is to say, if it is going to be a loaning transaction; of course, if it is to be a gift proposition, 25 per cent is not as good as 100 per cent—and if they are really to be loans, a percentage guarantee at a certain level is practically as good as a 100 per cent guarantee. In this case there would be discrimination if we set out to lose more than 10 per cent of our loans, but we do not set out to lose 100 per cent of our loans at all.

Mr. MAYBANK: You do not lend to lose.

Mr. SLAGHT: We do not hope to lose, but we run the risk of losing 100 per cent here and we only risk losing 10 per cent on the farm loans. We hope not to lose any, of course, under this.

Hon. Mr. ILSLEY: Yes.

Mr. SLAGHT: But that is a pious hope.

Hon. Mr. ILSLEY: But we have the matter in our hands here as to what loan we make, and we do not have the matter in our own hands in so far as the loans that the banks make to the farmers under the other act.

Mr. SLAGHT: You have that discretion. You have the power vested in you to stop a certain class of loan if you do not like it.

Hon. Mr. ILSLEY: I think that is so, by regulation.

Mr. SLAGHT: The Minister of Finance can stop the banks from lending along certain lines if he does not like the looks of it.

Hon. Mr. ILSLEY: I think it would be out of the question for us to adopt this scheme for agricultural credits for the reasons I gave in the house. We would have to set up thousands and thousands of branches all over this country. We could not do it at the present time, and I think that alternative is out. I think that the other alternative, that is of giving a percentage guarantee covering all the loans made by a particular bank for this and drop this Industrial Development Bank, is a very undesirable alternative.

Mr. MAYBANK: Would you answer this question?

Hon. Mr. ILSLEY: There are ten chartered banks. One chartered bank might make half a dozen loans and happen to make bad loans under this, where under a 10 per cent guarantee they would be too careful, I would think, about the loans they make.

Mr. JACKMAN: That is the word, "too careful."

Hon. Mr. ILSLEY: Well, I think they would be too careful. Just a minute. Should everybody make sure? Should the lending institutions of this country make sure that there is no loss under any conditions?

Mr. JACKMAN: No.

Hon. Mr. ILSLEY: Certainly they should not do that, should they? They should take some chances. If you had a 10 per cent guarantee to cover a few, maybe half a dozen, big loans like those in the course of a year, they would be too careful, I think; and it would be a different thing from having 1,000, 10,000, 20,000 or a 100,000 probably of small loans on a relatively standardized basis, most of which would be perfectly all right, as to which there would be a few losses here and there.

Mr. MAYBANK: Would you answer this question?

The CHAIRMAN: Mr. Jackman asked for the floor.

Mr. JACKMAN: I gave way about an hour ago.

Mr. MAYBANK: I thought this was a question that would fit in here.

Mr. JACKMAN: I want to ask a question of the minister now. I do not know whether I was going against what he was trying to get across to the committee or not at the moment. What I want to point out to him is that in industrial loans particularly, if they have any time element to them beyond six months or a year—if they are intermediate credits or long-term credits—the amount of risk is imponderable to begin with. You cannot weigh it. You cannot say how much it is going to be. People struggle to get companies going, to show some return on the capital, and many fall by the wayside. I suppose that Dun and Bradstreets show probably that 90 per cent fail and a few of them break even and keep going and perhaps 5 or 6 per cent are the ones which win and hold out an allure for people to go into business. What bothers me about this set-up is this: If what is stated in the preamble is true that this is to supplement and not to supplant and only to give assistance to companies which may reasonably expect to be successful, if we have a high level of national income—if these conditions obtain there will be no difficulty at all about sufficient money being forthcoming to provide all the capital required for small industries and large industries.

Mr. SLAGHT: You mean go to the private institutions?

Mr. JACKMAN: Yes, and not the chartered banks necessarily. I agree with the minister and the proposers of this bill that there was a need in Canada for some form of intermediate credit banks, not necessarily lending money at 5 per cent or 6 per cent, but going into the thing on a partnership basis, taking preferred stock and common stock. Your money would be tied up but in twenty years you might get something out of it, and the good years would make up for the bad years. One of those credit banks was established in the old country. I spoke to the manager and he told me of the amount of time required in nursing these companies and finding out how the money was spent. One could give money to a small manufacturer, say, \$100,000, and you would have no more control over the investment. He puts it into his business. He may buy a large piece of machinery which turns out not to be good or he may lose his market. You have to keep an eye on this and be a partner in it. That is why the funds have not been readily forthcoming to small industrial companies. I do not see anything in the set-up of this bill which fits into the work of the Bank of Canada or its personnel. They are professional central bankers. The Industrial Development Bank has nothing to do with commercial banking at all. Commercial banking is a relatively simple matter which concerns itself with twelve months' credit where you give a man so much money to buy hides or cheese or something like that which he is going to sell in six months—certainly within a year. It is not hard to see a year ahead. So, why should they lose much money? That is why banks can accept 5 per cent and pay for clerical work and show a return. If you get into the field of investment banking and deal with a project covering ten or fifteen or twenty years you have a case which calls for an entirely different background. You have to get a Scotchman with an instinct for success who will be much better than all the statisticians in the world. I sometimes laugh at some of the investment trusts in New York which had 50 or 60 or 100 people going over statements and what-not, while some small trust company possessing one or two good people who have an eye for business and know what the people want in the way of service and commodities have become very successful. That is why I see nothing in the make-up of the personnel of the Bank of Canada or any government institution that would satisfactorily run an institution such as is contemplated in this bill.

Now, looking at section 15 it refers to "reasonable terms and conditions". It says in part: ". . . in order to provide credit or other financial resources which would not otherwise be available on reasonable terms and conditions . . .". I have heard the deputy minister use these words "reasonable terms and conditions" and I thought probably that was why he explained that the money has not been forthcoming recently; but is there not money to-day for people who want to go ahead with small industrial companies and expand them? I do not know what "reasonable terms and conditions" are, but if you wanted any money from any person I was responsible to at 5 per cent for this type of thing I would not be interested at all; there is too much risk. I would be sure to lose on a great many. I am reminded of the statement of an old professor of mine who said: in finance, wrong three times out of five—the sheriff; right three times out of five—success.

Now, that is all this is. This is financing of a somewhat speculative nature.

It is intermediate credit and that involves a period of years, and you are going to have losses which will not be like bank losses where you may have 5 or 10 per cent in bad debts; you are going to have a high proportion. How are you going to finance under a 5 per cent rate, or some reasonable rate contemplated here? I cannot see it. This is a case of partnership. Mr. Chairman, I wish you would call it 6 o'clock now and I will ask permission to proceed in the morning.

The CHAIRMAN: We will adjourn until to-morrow morning and Mr. Jackman will have the floor.

The committee adjourned to meet Thursday, August 3, at 11.30 o'clock, a.m.

August 3, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: When the committee adjourned, Mr. Jackman had the floor.

Mr. JACKMAN: Mr. Chairman, when we called it 6 o'clock yesterday I had just pointed out certain of the risks attached to industrial enterprise. I should like to preface my remarks to-day with the statement that I am not necessarily against this bill, but the need for it has by no means been proven. We have had the statement in the house and statements here that in the eyes of certain government officials there may be a need for it. But I do not believe that it is the place of the members of this committee to become rubber stamps; and unless the need is shown, I believe we must give consideration to what possible ill effects the bill may have, and then to measure the pros and cons and to give it our best judgment. If it comes to a question of taking the judgment of some department official as against the judgment of my honourable friend from Northumberland, Ontario, I think I must stay with that of a practical business man who has come up the hard way and knows what these matters are about from firsthand knowledge and from long experience.

As I said yesterday, the rule in many of these industrial financing measures is that if you are right three times out of five, you are successful; if you are wrong three times out of five, you have the sheriff. That is pretty well the way things go in industrial finance. If the deputy minister or anyone else sponsoring the bill thinks to the contrary, I should be pleased to see the figures as to the history of business enterprises.

I should also like to point out that there is no thought in my mind, and I think in the minds of many of the taxpayers of Canada, particularly in the financial community, that the Industrial Development Bank would, in the long run,

take business away from the investment dealers, because the more industry there is the more banking there is to do and the more refunding there is as loans mature. Furthermore, if it were possible for the industrial bank to get going and to nurse young businesses in their early days, businesses which were unsuitable for public financing because of the high degree of risk attached to them or because of their smallness, the Industrial Development Bank might well prove a fruitful source of business for investment dealers, because in the more profitable stages of the business, with an assured credit rating, their securities could be sold to the public. So I just wish to point out that there is no antipathy on the part of the investment banker or investment dealer community against a bill like this if it is otherwise sound.

What I should like to ask of the sponsors of the bill is this. Our biggest objective for the post-war is to create employment for our people. We have seen in a number of measures before the house already that the government is quite willing to lose a certain amount of money if it can create a substantial amount of employment in the spending of that money. What I want to ask now is whether or not it is the intention or the willingness of the government that a substantial amount of money should be lost through the operation of this Industrial Development Bank in order to give employment to our people in the post-war, which employment would not otherwise be created. While I do not want to get into the field of pure economics at all, there is a current theory, which some of the members will no doubt be aware of, that the under-investment of the national income results in a depression being precipitated; that is to say, if money is not spent, jobs are not created and in that way we bring about the beginning of a depression. I should like to ask whether or not there is any of that thought behind this bill.

The next point which I mentioned briefly yesterday was as to why this Industrial Development Bank or some similar institution performing the same function has not been in operation in the past. We hear that there is a need to be fulfilled. Part of that need existed prior to the war. It may be aggravated due to the experience and the large industrial capacity which has been built up during the war. But I wish to point out that, from my own observations, the reason that this type of institution has not been successful in the past is that it takes too much time and attention to look after individual loans; that when the advance is made to an industrial company, you virtually become a partner in it and cannot deal with it at long range. You must be on the job constantly. The money goes to the manager or owner of the company and it may go into machinery, it may go into working capital or inventory of one sort or another and it may be dissipated quickly; so that the lender of the money—in this case the government or the Industrial Development Bank—would have no hold on the security represented by the money which was borrowed from the government. It is very much like the case of many returned soldiers in my riding who feel that the provisions of the government in regard to farmer soldiers whereby they can get credit, and to some extent gratuities, up to \$6,000, is much more beneficial to them than are the terms of discharge for city men. Many of these city men want to start their own little businesses; some of them want to start up radio shops and others want to start small stores. They feel they are being dealt with unfairly or discriminated against, because of the generous treatment by the government in regard to our farmer soldiers. Of course, I think it must appeal to all members of this committee that when money is advanced to a farmer, he has land as security, and he has machinery; and both of these forms of security are assets which can be realized upon, so that the extension of credit or gratuity to the soldier farmer is not likely to be entirely lost. But if you advance money to your city soldier who wants to go into the radio business or into the retail business, you may find that the \$3,000, \$4,000 or \$6,000, as the case may be, will be dissipated and lost. So that you have a more difficult

question. I think there is an analogy between the extension of substantial loans to city soldiers and the credit which would be advanced under the Industrial Development Bank. There is no similarity in the type of security which the bank would receive from the owners of the businesses. They would be in all kinds of different businesses. Some of them would attempt to market new products, others to develop new inventions; and if any one thinks that land and mortar which go to make up a going concern are of any substantial value, you have only to look at the situation we had even in 1939 where there were vacant factories almost all over the country and no one interested in them. It is not bricks and mortar or machinery which make a business. It is management which makes a business; it is creation of a market and the ability to supply that market at effective competitive prices. So that there is no real security behind these loans, no security which can be realized upon if there is failure and sold to some person. There is a very high degree of risk and for the assumption of that risk the lenders of the money must be compensated at an adequate rate.

I think Mr. Slaght suggested yesterday that we might use the commercial banks to advance these credits and guarantee them as we have under the agricultural bill, but I do not think that investment dealers are organized in this country in a way which would make that possible. Furthermore, as I just pointed out, a 10 per cent or 15 per cent guarantee of the overall loss would by no means be satisfactory because in some cases you would have a total loss. One investment dealer house acting for the government might have a total loss. They would be unwilling to accept such a suggestion because once again the security is of such a diverse nature that every individual loan must be taken on its own merit. It is not like a farm or some other form of security which can be used by other people if the original borrower does not make an effective and economical use of it. If a farmer is not successful and the loan goes bad there probably is only 10 or 15 per cent loss anyway, but in connection with an industrial enterprise if there is a loss it is very likely a 100 per cent loss. That is one reason why we cannot have some investment dealer organization or commercial bank look after this with an overall guarantee of only 10 or 15 per cent. The overall guarantee would have to be so high that I feel sure that the government would be unwilling to go into it, but the main point that I think we should give consideration to in the early stages of this hearing is what is the need for an Industrial Development Bank?

The deputy minister of finance mentioned yesterday that many cases had come to him, and I presume very deserving cases, certainly cases deserving of investigation, which would create employment for our people. He said that he did not know how they could be financed under any government arrangement at the present time and that he had referred the applicant for the loan to the ordinary investment dealer channels. I assume without very much success. I do not think that we have the right to ask the deputy minister to reveal any confidences but on the other hand if he is free to tell us of a number of these cases so that we will know exactly what we have in hand, what we are dealing with, then it is quite possible that we can understand the purpose of this measure and be able to judge better of its soundness or unsoundness.

From time to time in my business I have people come to me for loans or for the extension of money to them on a partnership or stock ownership basis. There are very few cases which justify the investment and what cases are credit worthy have a great number of buyers. I might outline a number of cases to the committee to find out whether or not these are typical of the cases which the deputy minister, and I presume the Governor of the Bank of Canada, have in mind for the extension of credit. I recall one company that makes tubing for airplane controls and for the controls of ships. This company is tremendously successful at the present time because I suppose we are building 50 or 100 times as many airplanes as we will be building in the post-war period. That applies

to the United States as well as Canada. With the disappearance of that airplane market so we shall find a disappearance of the market for the various parts which go into airplanes. That company is apparently well enough managed and it was successful in putting out an issue of \$100,000 in order to provide working capital, but they did not know whether it would be sufficient working capital for them and it was nothing but a shot in the dark. The people who invested in it were quite willing to put a small amount of money each into it in order to assure its continuance in the post-war period. Their expectation certainly was not 5 per cent return. They either expect to lose their money or they expect to double or treble it. Is that the type of thing?

I recall another case of a man who has a cutting tool business, a very small concern. When I refer to cutting tools I refer to knives such as are used by butchers, abattoirs and in the textile industry, and everything except the metal trades. He informed me the only other cutting tool company was a small one in Quebec where one or two old artisans were running it with no one to carry on and that he would have a virtual monopoly of the business, and that furthermore he had tariff protection of 15 per cent. That again is a business risk which all business faces in Canada. I rather look askance at the government paying out its money where tariff protection is necessary for security, because it interferes with our judgment on these larger and broader questions of tariff protection. That man's assets were probably worth \$20,000. He wanted to get away from the old handicraft method of making sharp-edged tools and to get into mass production methods such as they have in some of the New England states. For that he would need about \$50,000 to acquire the machinery necessary for automatic production. No one can tell whether or not that is going to be a success. I suggest that is not the type of thing which the taxpayers' money should be put into. If an individual wants to go into it and perhaps work in the concern that is quite another matter.

Then I recall another small company about which I was approached. Four or five expert toolmakers left their jobs and started up a show of their own. One of them had the ability to bring in business from his previous connections and was capable of co-ordinating these other workers and making it a going concern. They required more money to handle the greater volume of business now being offered but who knows whether or not the tool industry, which hardly existed in Canada before the war but is now of very sizeable proportions, is going to have a justifiable existence, that is, all of the companies engaged in that business, and which particular ones should continue? Are we going to favour one company over others? I think those are questions which the government should not concern itself with if the ordinary channels of capital raising are available.

Coming to the larger type of companies take the Atlas Steel Company which had \$1,000,000 of assets before the war and now has \$10,000,000 of assets. There is the raw material for toolmaking, high quality tool steel sold by the pound and not by the ton like other steels. You have this tremendous organization with its tremendous plant. In other countries, the United States in particular, they have built up these tool steel companies, and I presume also in England as much as possible. The world is hopelessly over-capacitated in regard to it and yet these are the types of people who would probably come before the Industrial Development Bank. If I am wrong in my surmise I think it is up to the sponsors of the bill to let the committee know exactly the types of borrowers who will come before the Industrial Development Bank, and what the problems are which they are going to meet.

I might say as far as small producing companies are concerned that want development capital, if you ask any of the general managers of our banks, those gentlemen we had here last week, you will find they have nothing to offer and that if they do find some company that is worth while they have any number of takers for it. In fact, any one of them will tell you that a number of people

have approached them already looking for just such an investment, lock-up capital, if you like, which will promise a reasonable return over a period. Another point I wish to bring to the attention of the committee is that the need, if there is a present need for an industrial development bank, will be seriously altered, and to my mind, largely disappear if we have a successful post-war taxation policy in this country. At the present time the government puts no capital into an industry, it does nothing for it, it takes no share of the losses and it demands a minimum cut of 40 per cent of the profits. There you have a silent partner whom you never see but who wants to take 40 per cent before you get anything at all.

MR. MAYBANK: Never did anything for you, do you say?

MR. JACKMAN: Quite correct.

MR. MAYBANK: Such as carrying on the war? Nothing at all? Do you wish to stay with that statement?

MR. JACKMAN: What I am suggesting is that not the corporation itself but the people who own the corporation are the ones who have been protected in this country and they are the ones who should be taxed. We had the case yesterday of the co-operatives being free from taxes. I think they should be free from taxes. I think all business that helps us should be free from taxes. I think it is a mistake to tax tools. How quickly we can get the British system, which has some sense in it, I do not know; but how can you get capital into business where you have an old man of the sea around your neck and you cannot shake him off? I think that is one of the things which deepened the hardships of the depression. We had the tax on corporations and business, even though the tax in those days might have been relatively small. You raise the revenue from the people who can benefit from the money, and they are the owners of the business, and not the inanimate corporation itself.

MR. McNEVIN: I think you will find difficulty convincing the Canadian people of that theory.

MR. JACKMAN: I hope it is not my duty to convince the Canadian people any more than it is yours. The soundness of the British method can be shown, and there is a tremendous group in the United States, advisers of the government, and others, who say that this corporation tax is unsound because it is a tax on tools, it is like a tax on the agricultural implements in western Canada. Furthermore, the taxation system during the war has destroyed a great many small companies in this country. A great many people engaged in business, knowing that for the first four or five years or longer they may have hard going to get established and to establish trade connections—the young companies starting prior to 1941 when the excess profits tax came in—had no base of profits, having spent all their money in trying to develop a business, and they decided that they might just as well fold up, and they sold out to the larger companies for whatever they could get. That was because of the effect of the tax policy of this country.

MR. KINLEY: I am afraid that is an overdrawn statement.

MR. JACKMAN: Well, there are many companies that I could name. You have an orchard and you have to plant your nursing stock.

MR. KINLEY: That is a part of your equipment. You can earn on the money you put in; it is part of the capital and equipment.

MR. JACKMAN: Here is a case that you will understand with regard to an insurance business. They started building up a business but they had no profits for a few years because whatever money they earned was used to develop the business, and they decided they could never earn anything during the war after tax, and there was the prospect of the war lasting four or five years, so they decided to fold up and sell out to another agency.

Mr. KINLEY: This is an industrial bill. An insurance company has no visible assets except a desk and a fountain pen.

Mr. JACKMAN: If you want the industrial type, one of the most difficult things in industry is breaking into a field and getting your contacts. If you want to put a new breakfast food on the market to-day the first thing you need is about a million dollars for advertising before you ever start to make any money. You lose money.

Mr. KINLEY: We are not permitting any new breakfast food companies to start in business.

Mr. JACKMAN: You name a company and I will describe it.

Mr. KINLEY: There is no competitive breakfast food; the people who are there are there and are protected against newcomers. That is the same in any business.

Mr. JACKMAN: The new company has to fight for his business. This is not an important point; I am only mentioning it. What I want to say is that the effect of the taxation policy in this country is that you have not got as many new small companies coming along which might grow into larger and successful companies because of the policy of the country. I do not think I will labour that point further. If it does not appeal to the members of the committee, I cannot help it. I wish to point out that there will be no scarcity of venturesome money if we have a fair taxation policy in this country. There is no scarcity to-day. If there is need for intermediate credit that need will be fully met if there is any economic justification for it, and private money will be in plentiful supply. As I see the matter at the present time there are any number of people, syndicates, who are more than willing to advance money and take a partnership interest in any small firm or industry, or in any new idea which may have been born of the war.

Mr. McNEVIN: A partnership interest in trust is generally pretty severe.

Mr. JACKMAN: That is why I drew the attention of the committee yesterday to the words of the Deputy Minister of Finance, which were, "reasonable terms and conditions." I think we should have a clear definition. Now, Mr. McNEVIN has said that the partnership terms are sometimes very onerous and very hard. If we are going to advance money at cheap rates and if new companies are going to compete with old companies, where do the old companies get off? As Mr. Fraser said yesterday, there is a clause in this bill which will permit advancing money to bankrupt concerns. I have no particular objection to that clause being in, but I think every member of this committee who has had any experience in business knows that the worst kind of competition is the competition of bankrupts. The worst thing you can do is to put your competitor into bankruptcy because someone takes over his assets and his plant, and he has no obligations. He is able to raise a little money cheaply because he can pledge everything he has. He is able to compete in business with no capital charges at all against him. And that is the kind of thing which wrecks business and which provides unfair competition to the honest business man who has made a success of his business and who is one of our taxpayers.

Mr. SLAGHT: And then he puts on a slaughter sale and sells the goods at half price.

Mr. JACKMAN: That is true in the retail business, but in the industrial field there is no capital charge and the buyer can compete unfairly. What I want to do in this bill is to give our people employment, to create industry wherever possible, and not to damage existing industry. That is why we must examine this bill carefully before we give it our approval. Even assuming the need, I will conclude by saying, as I said in the house, the chartered banks on January

31, 1944, had deposits of \$4,344,000,000, omitting \$600,000,000 of government deposits. The loans at the time were only \$1,288,000,000, or a little over one-quarter, say, 30 per cent of the amount of money available. Surely that does not indicate any scarcity of money being available for business. This money would not all be available for venturesome risks, but a substantial part of it would. What I want to do is clearly to indicate that the money is idle at the present time in the banks, some of it going into victory loans; and the business men and other people who have money and who are able to afford industrial risks are waiting for opportunities, while we have the government saying to us that here is a need that is not being supplied. What I claim is that the need does not exist; that people are looking for just such places to place their money. Furthermore we had as an indication of how easy money was the Bank of Canada reducing its discount rate this year from $2\frac{1}{2}$ per cent to $1\frac{1}{2}$ per cent, thus assuring business that there would be plenty of money there for any reasonable purposes. I just want to quote from the parliamentary assistant when on the second reading of the bill at page 1508 of *Hansard* he said this:—

But industry's own resources may be far short of the total amount of financing required. It is therefore in the national interest to ensure that such additional financing as may be necessary and desirable will be available to industrial enterprises.

I believe, Mr. Chairman, that the committee is entitled to know and must know what the need for this Industrial Development Bank is before it can give it any considered judgment.

Mr. BLACKMORE: Mr. Chairman, I wonder if I might ask Mr. Jackman this question? Does he believe that that money which is available is available for permanent capital investment or is just short-term money?

Mr. JACKMAN: I am not suggesting that all the money in bank deposits is available, because companies cannot buy inventory at the present time, stores are short of supplies. But I suggest that there is plenty of money. I think, when this bill calls for \$100,000,000 of total assets of the bank, there is certainly plenty of money, using that as a yardstick, for investment as permanent capital in such enterprises as is apparently contemplated under this bill.

Mr. BLACKMORE: Permanent capital?

Mr. JACKMAN: Yes.

The CHAIRMAN: Mr. Jackman has asked certain questions. I wonder, Mr. Jackman, if it would be your desire to have them answered by the Governor of the Bank of Canada, who is here?

Mr. JACKMAN: Whoever wishes to answer them; the deputy or the governor, I presume.

The CHAIRMAN: Then, Mr. Towers, I will call on you to answer the questions.

Mr. G. F. TOWERS, Governor of the Bank of Canada, recalled:

The WITNESS: Mr. Chairman, some time ago when the idea of the Industrial Development Bank was being thought of, some of us, thinking in terms of the post-war period and post-war problems, looked at the credit machinery of this country to see whether there were any gaps in it, if I may put it that way. Feeling that our post-war problems were going to be extremely serious, we thought that the least one could expect was that the credit machinery should be adequate for the needs of the country. The best credit machinery cannot solve all our problems, but the least we can aspire to is the best possible facilities for the extension of credit. In this particular field of medium or longer term industrial credit, particularly for small or medium sized enterprises, a good

many of us felt that there was a gap. Credit of that type has not, in the ordinary course of events, been provided by commercial banks before this present war, for the reason that the banks followed the policy of confining their loaning activities to short-term loans. There have been, even in the past, occasional exceptions. In other words, if a very first-class company, a large company, decided that it wanted to do some financing by way of the issue of serial notes over a period of five years, it might very well be that the banks would take those notes. That was really gilt-edged business. But for run of the mine business, and certainly in so far as loans are concerned, the banks have kept to short-term loans. I do not think there is necessarily anything to criticize in that policy. It was one which was accepted and felt to be right. Therefore in the ordinary course of events a small or medium enterprise, or a large one, indeed, had to find out, if it needed capital, whether it could sell an issue of bonds or preferred stock or whatnot, in the open market. Large concerns usually could, but small concerns very often could not.

By Mr. McCann:

Q. What do you define as "large" and "small"?—A. I would say that \$500,000 is getting on the large side. I do not suggest that issues smaller than \$500,000 have not been sold. They have. You can think down as low as \$200,000. But the smaller you get, unless it happens to be an industry which is very highly regarded and if small nevertheless is in a territory where at least locally it is very well known—unless you have these conditions, it is very difficult and expensive to finance by selling an issue on the open market to dealers. When you get to \$50,000, \$75,000 or \$100,000 requirements, that is particularly true.

By Mr. Kinley:

Q. Would you say that was true in rural Canada, or in the small towns of Canada, with a concern that has the confidence of the community and wants to sell their bonds? Would you say that it is expensive to do so?—A. You can find occasions such as that. You can find cases of that type.

Q. I have done that, and I know it is not expensive.

Mr. JACKMAN: It is expensive?

Mr. KINLEY: No.

Mr. MAYBANK: It might be in some cases and might not be in others.

The WITNESS: It varies with the community, of course. If there was an industry in Bridgewater which commanded local confidence to a high degree, I can quite see what you mention happening.

By Mr. Kinley:

Q. There is local esprit de corps that says, "Here, this is a good industry for the town." The people are more than anxious to do it.—A. There are those examples.

Q. Take a creamery or take a fish plant or take anything of that kind. It is part of the effort to sustain the community, to supply money for this bond issue; and it does not cost the businessman anything, as a matter of fact, unless you go to a broker. Then he wants his rakeoff, which is very natural.—A. There are those examples if an industry is fortunate enough to find itself in a place of that kind, and has the record to command local confidence and the local people have the funds. But it cannot go outside the locality, in the ordinary course of events, and get funds.

Q. We sold them in San Francisco. There are a lot of maritimers, you know, all over the world.—A. Oh, yes. Well, after all, it is a question of opinion; because no one can say to what extent the facilities of the Industrial Development Bank, if it is created, will be used. That depends on the need

which can only be filled from that source and also depends very materially on conditions; because if conditions are extremely bad, then people are not trying to develop their enterprises and they are not going in for new things. I believe that there is a lack of adequate credit facilities, that there has been a lack in the past, and that there may tend to be, having in mind the uncertainties of post-war conditions, a greater lack rather than a smaller one in the future. I have passed a good part of my life in business very much akin to this, so I am not speaking entirely from theory. I had the experience of handling industrial loans, perhaps trying to see that they did not fade away, during the years of depression in Canada, and in other countries in earlier years. So I think I can say I know a great deal more about this business than I know about central banking, if that is any recommendation.

By Mr. Fraser (Northumberland):

Q. At that point, I wonder whether the witness would permit a question.—
A. Yes.

Q. During that period of experience, would you loan money without security?—A. It depends on what type of loan.

Q. Would you make any loan without security?

Mr. JACKMAN: To save your loan.

The WITNESS: To an industry?

By Mr. Fraser (Northumberland):

Q. To an industry or to an individual?—A. Well, I cannot answer the question in exactly the way it is framed. But here is a case that might arise. We are talking now, of course, about bad times, are we not?

Q. No. We are talking about any times.—A. Well, first of all, about bad times. You might find that the loan to a particular industry was already all that one would want to make, having in mind the security on its current assets.

Q. That is exactly the point.—A. But in order to carry on, in order to avoid the thing folding up, the bank had—reluctantly but nevertheless actually—to make additional loans, even although the previously existing one represented all that the security could bear. In that sense they were unsecured.

Q. I quite appreciate that. But that comes into the category I mentioned yesterday, the bear by the tail category.—A. Yes.

Q. You could not let go of it.—A. Yes.

Q. But I am asking this. Under this bill, would you, as a banker, lend money without security?—A. No. In the case of a commercial bank, if the company with which it is dealing is in first-class standing, it may very well make a loan without security.

Q. Excuse me here just a minute, Mr. Towers. You say if a company was in first-class condition?—A. Yes.

The CHAIRMAN: A little louder, please, Mr. Fraser.

By Mr. Fraser (Northumberland, Ont.):

Q. You say if the company was in first-class standing?—A. Yes.

Q. From the bankers' view; you must obviously mean that the company is in good financial standing?—A. That is right.

Q. So there would be security behind the advance?—A. Not specific security. That is what I am talking about.

Q. Under this bill there is no provision for any security.—A. There is provision for every type of security that anyone can think of.

Q. Yes; you can accept it.—A. I beg pardon?

Q. You can accept any type of security?—A. Yes.

Q. There is provision for the acceptance by the corporation of any type or all types of security set out in the bill?—A. Yes.

Q. I agree with that.—A. Yes.

Q. But when I put the question to Dr. Clark yesterday as to whether security was necessary, the answer was "No".

Mr. MAYBANK: Not under the law.

Dr. CLARK: What I said was that there was no provision laid down of any specific security for any particular loan. But I read section 16 which deals with the taking of security.

Mr. FRASER (*Northumberland, Ont.*): Let me see if I can reverse my question or change it around another way. Perhaps your answer was as a result of the way I asked you the question yesterday. It is possible, under this bill, for the management of the Industrial Development Bank to advance money without security from the borrower?

Dr. CLARK: I suppose it is legally possible. But I do not think any management of the bank would do it, would advance money without security.

Mr. FRASER (*Northumberland, Ont.*): My suggestion, in view of the fact that it is legally possible, is this. Why should there not be a provision in the bill or a controlling clause in the bill whereby a borrower must submit security up to a certain percentage of the money advanced by the bank of the public money, instead of leaving the bill wide open as it is now? That is my point.

Dr. CLARK: Would you answer, Mr. Towers?

Mr. FRASER (*Northumberland, Ont.*): Excuse me a minute, Mr. Chairman. Following that further, there seems to me to be a very dangerous factor there, following the resumé being given by the governor at the present minute, and it is this. Remember, if the individual goes into business and invests his own money, or if a company goes into business and invests the shareholders' money, when there is a loss, the individual or the shareholders suffer the loss. But now we are being asked, under this bill, to put the government, through the Industrial Development Bank, into the banking business without a restrictive clause and even, on the admission I think of either the deputy minister or the parliamentary assistant the other day, without having to put up any security. Where there is a loss, the loss is the taxpayers' loss. My suggestion is that some provision should be made in this bill whereby the taxpayer's money is protected in exactly the same way as you as a banker would protect your depositors' money; and in that connection, that a pro rata security should be provided for whereby public money at least will have a reasonable chance of being returned.

The WITNESS: You cannot legislate good management.

By Mr. Fraser (Northumberland, Ont.):

Q. That is what I said yesterday. You and I are right down the same alley, Mr. Governor. That is exactly what I said yesterday.—A. A clause in regard to security would not be practical.

Mr. SLAGHT: What was that last answer? I did not catch it.

The WITNESS: You cannot legislate good management.

Mr. JACKMAN: You cannot legislate good judgment, either.

By Mr. Fraser (Northumberland, Ont.):

Q. All right. I submit, Mr. Chairman, that is only an additional argument that substantiates what I say. You, Mr. Governor, say you cannot legislate good management. That is exactly so.—A. My English may be poor, but I think the sense is clear.

Q. In view of the fact that you realize you cannot legislate good management, as a banker you ask for security which will provide a return on

your loan if the management is not good management. Why do not we do the same thing here?—A. Oh, I meant good management of the bank.

Q. But you would not refer to industry, would you?—A. I beg your pardon?

Q. You would not refer to industry—A. It would apply in both cases, of course.

Q. That is right.—A. But in the case of the bank it would be its duty to protect itself to the greatest extent that is possible by obtaining security.

Q. All right, let us embody this in the bill.—A. I wonder how it is possible practically to embody it beyond saying that the management is expected to be prudent and to watch out for the interests of the bank in obtaining security. For example suppose you say it must have 100 per cent security for a loan. Let us examine that. What is 100 per cent security? Is it debentures of the borrowing concern equal to the loan? If the concern is successful that provides 100 per cent security. If it is not it does not.

Q. As I read and understand the bill this is a clear case where there are no provisions made which require the management of the Industrial Development Bank to take security of any kind. You can lend money to some chap who has an idea. You can lend money to a chap who is operating an uneconomic business. All I am suggesting is—and I am suggesting it to Canada's outstanding banker—that you do the same thing, follow the same policy in this bill that you do in the ordinary commercial bank. Make provision to protect the lending of the public money. There is this additional factor; it is a funny thing, but we all know it is true, that in 99 cases out of 100 the individual has not got nearly the respect for public money, money procured from the public treasury, as he has for money procured from a bank or as he has for his own money. You know that across the Dominion of Canada unfortunately there are a great many—I would say perhaps the majority of the people—who feel that the dominion treasury is a repository for funds received from out of the air somewhere, and with that perspective I submit they have not nearly the respect for money they borrow from the government as they have for money procured under usual banking practice. All I suggested yesterday, and all I am suggesting to-day, is that this lending to liquidators and bankrupts should be taken out altogether. Provision should be made under this bill to protect public funds which are being loaned to industry. I agree, just as you say, that there is room between the banks and the loan companies and the brokerage houses, and there will be an increasing vacuum there, where the Industrial Development Bank can serve a good purpose, but I say it is the duty of men in public life to do their best to insist that these loans be barricaded by a percentage of safety consistent with the lending of somebody else's money, the taxpayers' money; secondly, that there should be something in this Act whereby the Industrial Bank management will confine loans to a certain amount. When you talk about a half a million dollar loan I think you will agree with me that you are getting into reasonably big business. A half a million dollar loan as working capital in the great majority of businesses would handle a turnover in the ratio of probably ten to one, probably \$5,000,000 a year or \$10,000,000 a year.

Thirdly, why could not some system be worked out whereby this industrial lending could be handled through the presently established set-up instead of setting up a new fabric altogether? Why could it not be worked out with people who understand the business, who have been in the business all their lives and have the machinery in operation to make loans of this kind? You will remember it is only a week or two ago that in discussing the policies of the chartered banks we went over with Mr. Wedd the small loan branch of the Bank of Commerce. Why could we not set up an industrial branch in the chartered banks and let the people who are accustomed to that business, and who are

in close contact and conversant with the position and habits of the borrower in the branches all across Canada, handle this kind of loan? Why set up a government institution to do it? You have got the machinery in your banks now. Those are only suggestions, and they are borne out, I submit, at least in the first case, by the statement made by the Governor himself.—A. On the question—

Mr. SLAGHT: Would the Governor mind before he answers Mr. Fraser if I give him three or four matters that are troubling me? Probably he will include them in dealing with Mr. Fraser's questions. I should like to hear his views on them when he replies to Mr. Fraser, if that course is agreeable.

My first point is that this is a pure experiment and that parliament is not justified in using taxes for a speculative purpose without a mandate from the people so to do. My reason for feeling that way is that we collect taxes and the people of Canada have paid taxes heretofore on the distinct understanding that in a current year we budget for the needs of the business of Canada, approximately \$500,000,000 in the last ten years. That money has been collected and people have paid it quite willingly in war time for that purpose. We are not going to use their money for that purpose at all in so far as we divert it into a new speculative lending channel where the money collected in a given year for taxes will be loaned out for five and ten years to come. That is my first trouble.

The second is that the government are entering the commercial banking

Mr. SLAGHT: I am submitting these points for the consideration of the commercial banking field entirely out of the hands of government and entirely in the hands of the commercial banks.

Mr. FRASER (*Northumberland*): And to take business that the commercial banks refuse.

Mr. SLAGHT: I am coming to that.

Mr. MAYBANK: Mr. Slaght, is not that last point one that it is hardly appropriate to submit to either the deputy minister or the Governor because it is a matter more for the minister?

Mr. SLAGHT: I am submitting these points for the consideration of the committee as well as the Governor.

Mr. MAYBANK: You are not questioning him. You are not going to say, "Look here, give me an answer to this."

Mr. SLAGHT: No.

Mr. MAYBANK: You believe that is a question of policy.

Mr. SLAGHT: It is a matter of policy and I am sorry that the minister and one of his associates are not here this morning because we are all responsible to our respective constituents.

Mr. MAYBANK: Maybe he is defending policy in some other place.

Mr. SLAGHT: My friend, Mr. Ryan, suggests it is not a commercial bank; it is an industrial bank. I use the terms commercial and industrial business. I want to include them both. You raise your brows. Commercial and industrial business is carried on to-day by the chartered banks.

Mr. FRASER (*Northumberland*): A rose by any other name.

Mr. JACKMAN: Include the investment dealers, too.

Mr. SLAGHT: Including the investment dealers. It is carried on to-day by a non-government agency, but the government tax for a twelve months period and we are going to use part of the taxes we collect next year not for the business of the country like the Mounted Police and Justice and all the departments that make up our budget. We are going to set aside a chunk of that tax money and start up in a speculative industrial banking business on their money. I think we ought to have a mandate from the people, that they ought to have a chance to pass on that sort of revolutionary change in the use of taxes. That

is my first point. The second point is that I regret to see the government entering the field of commercial banking, or a field that is now carried on by the private banks. I suggest to the members of this committee that every argument, every thought, which has been expressed by those who are opposed to nationalization of our banking system, every item that has been put forward in these discussions and debates, applies with equal force against the embarking by the government on a commercial banking system to a limited extent.

The third point is that it is class legislation. What are we to be able to say to the small merchant, the small storekeeper who is not included in this privilege? We have picked out small industry and our definition under D is very confined, naturally.

My next point is that we require a new set of officials, as Mr. Fraser pointed out, and new offices across Canada. I think Dr. Clark indicated that he thought—and Mr. Towers perhaps has thought this out further—that ten new offices of the Bank of Canada would be sufficient to set up. I point out that the minute this bill goes through you will have applications from Victoria to Halifax. You will have them all through northern Ontario and northern Quebec. You will have them from all over Canada. I do not know how you gentlemen sitting here in Ottawa can, with your other heavy duties, look after a business as widespread as that and get the information which the chartered banks would get through their managers who are on the spot and who have known John Smith as a resident of Nanaimo, Cochrane or The Pas for ten years and know all about him. You have got to start from scratch or else set up an enormous organization. I believe people are feeling we are getting too many boards, too many government commissions, too many government organizations, and here we are going to pile another one on their backs. I assume you gentlemen will receive additional remuneration for these onerous duties, but if you are going to do it for nothing that is all to the good. As a taxpayer I am glad to see that is the way it is to be done, but if they pile this on your shoulders it is really a man's job to sit and watch loans of this kind for a full twelve months without the other more important and very serious duties you have to perform for us as Governor of your bank.

My next objection—and this is the last—is that we are facing deliberately as members of parliament, as I have listened to the officials' admissions, the setting up of an institution where the probability of losses of the taxpayers' money is a real probability, not a possibility. It is not like the farm loan board where you have got a backlog, or like this new export insurance where they collect premiums and where there will be no losses, where they take care of losses. Every dollar you lend here is a dead loss because there is no thought of gain by this bank. That is where it differs from a chartered bank. They have losses, of course, but they have large gains. This bank cannot gain any money for the taxpayers and the probability is it is going to lose their money. Therefore it is a pure form of bonus to certain industry from the public chest. When we bonus men in that industry and set up government aid for them we are in competition with good merchants and industrial men who have developed their own businesses over a lifetime without government bonus. You are putting a new government bonused industry in competition with existing non-bonused industry. Those are the points which trouble me about the whole business.

MR. PERLEY: Just before you answer may I interject a question? I did not hear the questions which Mr. Fraser put and I would like to know if under section D of the interpretation section and under section 15 which we are on now it is possible to assist co-operative enterprises? For instance, in Regina, we have formed a co-operative organization for the refining and producing of gasoline. We have another co-operative organization there which is going to go into the manufacture of implements. Will this Act permit the financing and assisting of co-operative enterprises of that kind?

The WITNESS: I would say it would.

Mr. KINLEY: By paying no taxes?

The WITNESS: Yes. As the Act stands there is no inquiry as to that. If an industry fulfils the requirements of the Act as an industrial enterprise it qualifies.

Mr. KINLEY: Whether it pays taxes to the country or not.

The WITNESS: Yes. If I might go the long way about, so to speak, in answering Mr. Slaght's questions, it does not seem to me that there is discrimination. Mr. Slaght was referring to small merchants. Their requirements relate to current credit for the financing of inventories. I believe that the existing credit system provides these facilities very well. The type of facilities which the Industrial Development Bank would provide is more of a capital or longer term character. That has not been the commercial banking field. In other words, the Industrial Development Bank is not designed to enter the commercial banking field as it has been up to now in the history of Canada; and I make that statement with complete conviction that it is true, in spite of any occasional exceptions a banker may bring forward to prove the contrary in the past. I think in recent times, in the last few months, that various banks have thought that, perhaps, they should go into that field to a moderate extent. The average bank might say to itself that to the tune of five million or ten million dollars they might very well go in for the somewhat longer term industrial loans, the type of loan which the Industrial Development Bank proposes to make; and they may say: why should we not make it? All right. If the commercial banks make such loans then the Industrial Development Bank will not be called upon to make them.

As to the question of every dollar lost being a dead loss, I do not follow that, because the Industrial Development Bank, like any other lending institution, will receive interest on the loans it makes and, therefore, will have earnings from those loans to apply against its cost of operation, including losses. I am sure, the Industrial Development Bank will make some losses. I hope, however, that its management would have the wit to break even over a period of time. It is true that in setting up anything of this kind one takes a chance on the ability of the management and on general conditions; but I do not believe that chance is a very great one. This is an experiment so far as this country is concerned, although it has been done in various other countries, but I do not think that necessarily condemns it, because I think that in the years that lie ahead of us we should experiment and we will experiment in a great many ways.

With regard to the size of staff. There will be need, in the first instance, for a moderate sized staff. The bank will need a very capable staff, and that alone would make the number very small because such staff are not obtainable in number. It will be necessary for a small number who are involved in the early stages to do a fair amount of travelling; it will also be necessary—and this is the case that Mr. Fraser referred to—to make use of the facilities of the chartered banks to the greatest possible extent. It is possible under the terms of the bill for the Industrial Development Bank to guarantee a chartered bank when it makes a loan to a customer in full or in part, and I hope that that method of extending credit will be used to a very considerable extent—not a guarantee in whole, but in part. If a chartered bank had a certain amount of its own money at risk there would be a strong interest on its part in supervising the loan and in trying to see that it came out all right.

Mr. SLAGHT: Would you suggest putting a figure on the extent of the guarantee as we did in the case of farm loans—perhaps a larger figure—or would you suggest limiting the guarantee to 20 per cent or 30 per cent loss?

The WITNESS: I do not think that would be practical because I do not believe in this type of lending business it is possible to put a guarantee in

the over-all form in which it exists in the other field—in other words, a pool guarantee. Each case will differ so much that the pool guarantee principle is not practicable.

Mr. JACKMAN: Is the guarantee on the top half or the bottom half?

The WITNESS: It will be, I would say, a sharing guarantee. A guarantee of the bottom half is tantamount in most cases to a guarantee of the whole thing.

Mr. JACKMAN: If the loan is too large or too risky for one very large bank to handle there are nine others who will be delighted to participate in it.

The WITNESS: I think there is a misunderstanding there, because what we have in mind is that in a loan of \$100,000 extending over a period of five or six years a commercial bank might feel that it could not undertake that itself, taking 100 per cent of the risk, but it would be very glad to do so if it took 25 per cent of the risk.

Mr. JACKMAN: It would be glad to syndicate it to the other banks. That is a profitable business.

The WITNESS: You are suggesting there that it would be profitable for the banks to get busy and avoid in such cases using the Industrial Development Bank at all, so that four or five of them would put up their 20 per cent of the risk?

Mr. JACKMAN: Yes.

The WITNESS: All right. Then the borrower would not go to the Industrial Development Bank.

Mr. JACKMAN: I do not want to interrupt you, but the point arises there in the statement you make that the borrower would not go to the Industrial Development Bank. Suppose he goes to the commercial bank up to the limit of its capacity to lend—or I might say he might go to investment dealers who can lend permanent capital—suppose the prospective borrower says, "I am not going to pay 6 per cent for the selling of this security, I am not going to sell this preferred stock with a bonus of 20 per cent on the common, or whatever it might be," which is the custom that has been looked upon as fair, as I presume it is in view of the risk—suppose the prospective borrower says, "nothing doing; I will go to the Industrial Development Bank"; how are they going to keep in active competition with the taxpayers of this country? You mentioned to Mr. Slaght that there will be income coming in on the money which you lend. Where are you going to get the money? There are certain references in the bill to getting the money—there is the dominion treasury and the Bank of Canada. Is assume you will pay a rate of interest on that, possibly you will be paying no interest on it, but if you do pay a rate on it it will be less than the ordinary investment bank will pay, and therefore you can quote lower rates. There is the danger in this business of government ownership, of the government meddling in business—that is where it comes in—you never know where the repercussions are going to be. You put a little pressure here or a little pressure there and you find something coming up, some harm being done. I want to know the process. It is almost impossible for members of this committee to pass on a matter like this unless we have actual cases brought before us or sound hypothetical cases passed on to us. Let us see how the machinery is going to work and then we can see what the repercussions are going to be on private business and on the taxpayers of this country. That is why I put these questions to the governor.

Mr. BLACKMORE: I wonder if we might hear Mr. Towers give his statement. We have had several interruptions, and I would like to hear his statement.

By Mr. Hazen:

Q. Might I ask where in this bill the power is given to the Industrial Development Bank to guarantee loans made by these chartered banks?—A. Section 15 (a) "Lend or guarantee loans of money to (i) a person engaged in or about to engage in an industrial enterprise in Canada," i.e., a corporation.

Q. Does a person include a corporation?—A. Yes. There a person really means a corporation. A loan can be guaranteed to a corporation, and that loan might be made by a commercial bank to a corporation.

Now, speaking of an earlier question, that it is the taxpayers' money which is used for a loan that, of course, is not so: the funds used by the Industrial Development Bank for making loans will come in part from the capital subscription made by the Bank of Canada, and in part by the issue of debentures by the Industrial Development Bank. Where the taxpayer comes in—is if on balance over a period of years the Industrial Development Bank loses money. In that case the profits of the Bank of Canada are reduced, and that means that less money is paid into the consolidated fund. So that there is a risk taken on the prudence of the management and on conditions; and the question there, of course, is whether we are justified in taking that risk. My own view would be that we are, that the risk we are taking here is going to be very small in relation to the many risks we are going to have to take in the post-war period unless I miss my guess.

Mr. KINLEY: We have heard a lot about the decentralization of industry in Canada and about the centralizing of industry; that is, if it is distributed all over Canada it will make for a better balanced economy, and I think that is acceptable and is a good thing.

The WITNESS: Yes, I agree.

Mr. KINLEY: Now, do you think that any man who is in the realm of half a million dollars, who is entitled to half a million dollars of credit, should come to the people of Canada for the taxpayers' money to run his business?

The WITNESS: It is the taxpayers' money only if the money is lost.

Mr. KINLEY: If a man is worth half a million dollars is not he well able to look after himself?

The WITNESS: In the ordinary course of events, yes; but on that basis you might say: why not put a ceiling on the loans which should be made? I do not think the Industrial Development Bank would be severely handicapped if that was done. On the other hand, it might very well in certain cases prevent some very desirable thing being able to go ahead. I do not know what might arise in the reconversion period which would justify the making of quite sizeable loans and loans of a character which could not be floated in the public market. Credit extended will be to the small industry in the vast majority of cases, but there may be cases of a larger kind. Now, those cases might relate to the provision of employment; not the spending of money for employment, but making a loan which carries reasonable risk, where that loan would help to provide employment; and the point I should like to leave in the committee's mind is whether, in that case should a man who is working for a large industry be discriminated against as compared with a man working for a small industry?

The CHAIRMAN: Gentlemen, it has been suggested that we adjourn until to-morrow morning and that in the meantime the Governor will be able to give mature thought to some of the questions that have been asked and to look over the transcript and give his considered answers in the morning. If any other questions are to be asked I wish you would ask them now.

Mr. HAZEN: May I refer to section 15(a) (i): "Lend or guarantee loans of money to a person engaged in or about to engage in an industry or enterprise in Canada."

Now a chartered bank is not going to engage in industrial enterprise in Canada, all it is going to do is to lend money to a person or a company engaged or about to engage in an industrial enterprise in Canada; and surely that clause does not give the Industrial Development Bank power to guarantee the loan of a chartered bank, as that clause is worded.

The WITNESS: I think it does, because in (i) the "person engaged in" does not refer to the chartered banks.

Mr. HAZEN: Is not the loan limited to "person engaged in"?

The WITNESS: Yes.

Mr. HAZEN: If that is so, the loan is limited to that extent; surely that does not give authority to the Industrial Development Bank to guarantee the chartered banks; that is limited?

The WITNESS: I think it gives the Industrial Development Bank the authority to guarantee a loan made by a chartered bank or anyone else.

The CHAIRMAN: Are there any further questions?

Mr. HAZEN: There is one question that I had in mind about this, Mr. Towers. Is there any gap of the nature you have described that private enterprise is incapable of filling, if it is given the necessary authority? Mr. Fraser put that question, I think, in another way. He asked why it could not be worked out under the present set-up. That is the question that has been going around in my mind in connection with this.

The CHAIRMAN: Mr. Ryan has a question.

By Mr. Edwards:

Q. That is the very question that has been bothering me. Under the present Bank Act you say that under law the commercial banks are not able or cannot legally or properly within the four corners of the Bank Act make the type of loan that is contemplated under this bill?—A. I say that they can, but that in the past they have not.

Q. They can, but in the past they have not?—A. No. Incidentally, they cannot take mortgage security.

Q. But they can take the other kind of security?—A. They can take bonds.

Mr. FRASER (*Northumberland*): Why not just extend that system?

Mr. EDWARDS: If you amend the Bank Act, if it needs amendment, so as to make it possible for the banks to make that type of loan that is contemplated here, then I think it would meet the thought in the minds of most of those, including myself, who are objecting to that principle in this bill of putting the government into the loaning business, where they are lending direct. I have no objection in principle to the same policy being adopted in regard to commercial loans as we now adopt in regard to home improvement loans and farm loans. But I am very much concerned that we should put a public institution at the service of all and sundry, who can come, with such pressure as they can command—political, communal or provincial—in order to get money from this source. That I think is the thought that is in the back of the minds of all of those with whom I have discussed this measure. I am afraid of the social and political repercussions that would follow if that practice is adopted. If this section 15 went no further than to say this bank may guarantee loans of money to this type of person—and I would not have it restricted by any manner or means to your commercial banks or banking institutions of this country, but would have it apply to anybody who will come in and undertake to loan money in Canada for industrial development as contemplated by this bill and shows their good faith in it, to the extent that they say, "Here, we will put up so much money. Will the government give us a guarantee of 5 or 10 per cent as has been done on these others?"—then I would be wholeheartedly for this bill.

Mr. JACKMAN: I will take my money out of the bank, then.

Mr. EDWARDS: My observation of the government going into private business is such that I think thoughtful people of Canada will shake their heads in doubt, fear and misgiving.

Mr. JACKMAN: Hear, hear!

Mr. EDWARDS: I for one think of one example of the government going into the business of industrial development. We have had one example in the province of Alberta recently. That, I think, was one grievous error that was made. I refer to none other than Wartime Oils, where we put up all the money to drill the oil wells in what was admittedly a bad venture. I am sure the government will never get its money back out of it. Yet at the same time, if the stream had been broadened, and if by its policy the government had said to the investor, "Here, we will give you concessions by way of taxation or by guarantees against limited losses" we would have had far more oil out of the Turner valley. I am all in favour of the principle of guarantee. We would have had far more oil in the Turner valley. I am in favour of the principle of a guarantee there but we are trustees. The principles of trusteeship must apply, and this contemplates joint adventures.

By Mr. Ryan:

Q. Mr. Towers, there is no provision here that the bank can name one or more directors on the board of any industry to which the bank would advance money?—A. No, there is not.

Q. Do you think it would be a good idea to have a provision of that kind?—A. I would think not. Judging from commercial banking experience I think it is best to preserve the relationship of banker and borrower. When you get them mixed up some very peculiar things can happen.

Mr. FRASER (*Northumberland*): Mr. Chairman, I am convinced that the approach of the Governor when he was a commercial banker lending depositors' money was entirely different from his approach to lending public funds under this bill.

The CHAIRMAN: Are there any further questions?

The WITNESS: You believe I would be more conservative?

Mr. FRASER (*Northumberland*): Slightly; you would kitter a little towards Maggie.

Mr. KINLEY: My concern is that we keep in the realm of small business where we belong. This was conceived to fill a gap. It was born by arguing the need of the small man. If you look at the first meetings of the committee both Dr. Clark and Governor Towers stressed the need of the small man. I do not think we were seduced but we were endeavouring to help the needs of the small man. I do not want to get into the realm where we are helping the rich to get richer, and concentrating business more than it is concentrated in Canada at the present time.

The CHAIRMAN: Any further questions?

Mr. FRASER (*Northumberland*): I have made some suggestions to the Governor. I hope he will think them over between now and to-morrow morning.

The CHAIRMAN: We will adjourn until to-morrow morning at 11.30 o'clock.

The committee adjourned at 1.10 p.m., to meet again at 11.30 a.m., August 4, 1944.

August 4, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock, a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. Fraser has asked for the floor.

Mr. GRAHAM F. TOWERS, Governor of the Bank of Canada, recalled:

By Mr. Fraser (Northumberland):

Q. Yesterday I asked some questions of the Governor in connection with this bill. Perhaps this morning I can best begin by directing questions to the Governor to clarify the purpose and position of this bank, as I see it. My first question to the Governor is, what type of industry do you propose lending money to?—A. What type of industry?

Q. Yes.—A. That is a very difficult question to answer. At least, the answer is not very illuminating because it must be any type of industry which qualifies under the Act if it is passed.

Q. That reply will perhaps suit the purpose as we go along. What manufactured products are there in Canada for which we lack plant capacity to produce at the present time?—A. I cannot answer that.

Q. I suggest that those answers, Mr. Chairman, are extremely important. The answer to my first question is that the Governor cannot tell me what type of industry, except in a most general way, to which this bank would advance funds. Question No. 2 the Governor is unable to answer.—A. Any general manager of a bank would be in a similar position because if you said to a general manager of a bank, "To what industries do you expect to make loans over the next ten years, and what would be the size of those loans, what would be the purpose", the general manager of any bank would have to say, "I do not know; it depends upon the customers that I get and their requirements and conditions."

Q. I would suggest that is a very clever reply, but it does not cover the point at all because I understand you are one of the sponsors of this bill in your capacity as Governor of the Bank of Canada. As one of the sponsors you must have had in mind what type of industry and also in connection with what product the Canadian people were suffering or might suffer from the lack of plant capacity to produce that particular product. I think that is an obvious thing.—A. Any type of industry, and in regard to lack of plant capacity I do not know what the demands will be over the course of the next ten, fifteen or twenty years.

By Mr. McGeer:

Q. You are sponsoring it. You are promoting this bill. You are not in the position of a man who is the manager of a bank. You are creating something new. What are you creating it for?—A. I suggest it should be created because I believe so far as medium and small size industries are concerned that there is a lack of facilities for obtaining medium or long term credit. I would suggest that the thing to do is to remedy any deficiencies of that kind. The extent to which the new machinery will be made use of is something which I suggest no one can predict.

By Mr. Fraser (Northumberland):

Q. I will bring you along to the point of the small industries, but I suggest to the committee the answers to my first two questions were strictly in the negative, particularly for one who is sponsoring this bill.

The CHAIRMAN: A little louder, please.

Mr. FRASER (*Northumberland*): I suggest, Mr. Chairman, that the Governor's answers to my first two questions are strictly in the negative as one who sponsors this bill. My third question is—

Mr. BLACKMORE: The Governor wished to say something, I think. I think Mr. Towers wanted to make a reply, did he not?

The WITNESS: I would suggest that they are not in the negative but are positive in this sense that I refuse to believe anyone can predict just what the needs will be, but I do not think that necessarily means that there should be no provision made for meeting such needs as may arise.

By Mr. Fraser (Northumberland):

Q. What product do you suggest we are not producing that we might produce, for which we have not got plant capacity to produce at the present time and that we might produce?—A. It is not only a question of what product we are not producing. There is the question of quantity. There is the question of modernization of plant. There is the question of new products which may come on the scene of which I frankly have no knowledge.

By Mr. Blackmore:

Q. Decentralization, too, is there not?—A. Yes.

Mr. TUCKER: Then there is the question as to the men coming back from overseas—

Mr. FRASER (*Northumberland*): I object to that. I will try and bring that out.

The CHAIRMAN: Suppose we let Mr. Fraser continue without interruption and then let everyone have exactly the same privilege.

Mr. FRASER (*Northumberland*): I am sure if my honourable friend will permit me to proceed I will bring that point out for him.

By Mr. Fraser (Northumberland):

Q. The answer to my third question is you have not any particular product in mind at the present time of which the Canadian people are short or will be short in peace time with the presently set up plant capacity? Your answer to that is it may be a question of modernization of certain plants. My fourth question is, what in your mind is the final objective of this bill, as concretely as you can see it?—A. The objective is to ensure that any sound new development, that is, a new enterprise, and the expansion or modernization of existing enterprises, shall not be handicapped by lack of ability on the part of the enterprisers to obtain credit within amounts to which they might reasonably be entitled.

Q. In my next question, Mr. Towers, perhaps I had better include the Hon. Minister of Justice. In order to protect these industries will it be the policy to do so by tariff protection, to shut out imports that might compete and might even destroy an industry which had received public assistance?—A. Well, as you say, perhaps that is a question which should not be answered by myself, but I would say that the lending institution would operate in exactly the same way as any other lending institution from that point of view. It would judge the credit risks on the basis of all the information which was in its possession.

[Mr. G. F. Towers.]

Q. Of course, in the scrutinizing of that credit risk you would obviously have to take into consideration whether it might be the policy of the government of the day to either withdraw or not impose a tariff on the product of the industry that you suggest you might assist under this bill. I am only suggesting at this point that this bill has some far-reaching ramifications, that it is going to tie industry, as industry is always tied with tariff, or assist in the development of industry in such a way with tariff protection that it is a question of not letting your right hand know what your left hand is doing. Tariff protection becomes a great factor because you are dealing now with the industrial production of products within Canada for the use of Canadian people and obviously for export markets.—A. The lender, whether it is a chartered bank or a publicly-owned company, whether by way of a bond issue or a preferred or common stock issue, must and does, I think, to a certain extent take into consideration that tariff question. In other words, if it were anticipated by the public that an industry which had hitherto enjoyed a tariff protection of 20 per cent was going to lose that protection, and that its profit-making possibilities would be adversely affected by the change, that industry would find great difficulty in floating issue on the market. As I said before I think this new lending institution if it is created should operate in just the same way from that point of view as other lenders would. If it should be the policy of the government to make a tariff change which would adversely affect a certain industry to which a loan had been made by this new bank, and if this involved the new bank in losses, I do not think the government should hesitate for one moment to adopt a policy they normally would. In other words, any idea of protecting the Bank from losses of such kind should be completely absent from the government's mind.

Q. I submit, Mr. Chairman, in the light of the answer Mr. Towers has just made, that we are not dealing with private investors or private banks; we are dealing with—and we must differentiate in that respect—we are dealing with a publicly owned bank in this case, not a private bank; and, as I said yesterday, in the case of a loss occurring in connection with a publicly owned institution the situation is different from what it is with a private institution; the public treasury must bear the loss and I submit that in discussing and analyzing this bill you cannot ignore the fact that here we are dealing with a public institution linked up with, tied to and operated by the government, and the same government that will establish the tariffs. Now, let us go one step further from your reply. Any industry that a manager of this bank decides should have a loan would get a loan. And now, it may be that an industry approaching the bank for a loan may be producing a product which we are already importing, let us say from the United States; so there would be the obligation on the part of the board of directors to try to decide whether that product should be produced in Canada. That would be absolutely up to the directors of your bank. It is quite within the realm of possibilities that your board will decide that shoes made in Boston should be made in Canada—that is not a proper illustration from the standpoint of supply and demand and internal production—but they may decide that the shoes made in Boston should be made in Canada, and therefore if your board were to loan money for that purpose that comes into conflict with tariffs and importations. The reason I mention that is that this bill has such wide ramifications when you try to think through on it, because it is going to have a bearing very possibly and conceivably on the tariff on imports if we do not import more products from the United States. And that brings me back to your reply of a minute ago, that you are going to assist industry, and in doing that you are going to be assisting industries and others to turn out products which were not produced in Canada previously but which we imported from Britain or the United States or some other country; so you cannot in my humble opinion disassociate the scope of this

bill from international trade.—A. But the determination as to whether or not a loan should be made would rest on its safety; in other words, would rest on the prospects of the industry concerned being successful. Now, the type of thing which you mention, that is the production of a new thing which Canada previously had imported could of course be done without, necessarily, any borrowing taking place from the Industrial Development Bank. It may be that the enterprisers would be able to provide capital themselves or get it elsewhere. That goes on all the time.

Q. I am not concerned with that.—A. Unless you want to visualize a situation where the government decides to license all such things if they affect our external trade, then they will go on in any event whether or not there is an Industrial Development Bank.

Q. But may I respectfully submit to you, Mr. Governor, that we are not discussing the matter of private financing, we are not discussing the matter to which you are referring but we are discussing the matter of public finance.

Mr. TUCKER: Mr. Chairman, I object to that suggestion. The statement has been made and my friend is finding fault with the witness' answer. If we are going to consider this Industrial Development Bank I submit that we have also to consider the extent to which private banks can be made to live up to their obligations. You have got to consider private financing in dealing with this question, and the suggestion that you must keep away from that I suggest is wrong.

The CHAIRMAN: Proceed, Mr. Fraser.

By Mr. Fraser (Northumberland):

Q. I submit I am well within the subject.—A. I think, if I may, I should put this in. I believe this proposed institution would be a useful thing. But I have no vested interest in the creation of this new bank and in fact from a selfish point of view would be better off if it never came into being. As to some of the possible ramifications of its activities, perhaps it should not be I who expresses views; perhaps I should say more about how it will operate and leave questions relating to private industry, public interest, private finance and so forth to be answered by someone else.

Q. It was said I think by yourself and also by the Deputy Minister, yesterday or the day before yesterday, that the purpose of this bank was to assist small industry; is that correct?—A. I think that is the main function.

Q. So what it is actually asked to do is to create government assisted competition within the scope of small industry to compete with small industry; is that correct?—A. I do not quite follow that. If small and medium-size industry has difficulty in obtaining financing, is this provision to assist in the financing of small and medium-sized industries—

Q. Yes, if we are not going to assist the financing of some of these small industries to compete with each other are we not building them up by government assistance to compete with my friends here who are engaged in monopolies or large industries. According to your evidence we are going to assist small industries, and then we obviously are going to assist small industries to compete with small industries.—A. Oh, instead of large industries taking more business.

Q. Well, let me ask you this question—I believe probably you could give me the answer from memory—what are the saving bank deposits in the chartered banks today?—A. Around \$2,200,000,000 I would say.

Q. What would you say they were in 1938?—A. About \$1,600,000,000.

Q. There has been a tremendous increase in savings deposits?—A. Yes.

Q. And the interest on those—

Mr. McNEVIN: Do you mind if I ask whether or not those deposits are time or demand?

The WITNESS: It is savings; they are time deposits.

Mr. FRASER: I was just dealing with savings.

By Mr. Fraser (Northumberland):

Q. All right, I believe on these savings you periodically credit interest at the rate of $1\frac{1}{2}$ per cent?—A. Yes.

Q. And you agree with me that the savings in the banks, the savings of people in Canada in the banks form the actual basis of your accumulated wealth, production and services?—A. No, they are one reflection of it, but I would have to give a much more elaborate answer to that and go into it at length.

Q. Well then, let me put my question in another way so that you get a yes or no answer. They represent the accumulated wealth produced by the people of this country as represented by their deposits in liquid form?—A. If you do not want an economist's answer, technically correct in every sense, I can answer yes.

Q. But the answer is yes. Now, as I said a moment ago you say $1\frac{1}{2}$ per cent interest is paid on those deposits. That matter was discussed in this Banking and Commerce Committee and it was brought out, I think by the hon. member for Burrard or the hon. member for Parry Sound, in the form of figures or tables produced which showed these funds are going into government loans, and that the proportion of industrial and commercial loans had decreased over the period, owing to the government financing of industry and the government repository of investments in the way of victory bonds. That is correct, is it not?—A. I do not quite follow that.

Q. Let us see if I can put it another way, then. There is not sufficient industrial and commercial outlets at the present time to enable the chartered banks to loan as much of their book credits as they, in the course of their banking business, would desire to do?—A. That is right.

Q. That is right?—A. Yes.

Q. Further than that, there is not sufficient outlet to develop industry in this country as it may and we hope will develop after the war. In other words, there is about 2 billion dollars in the banks in savings deposits at a very low rate of interest?—A. Yes.

Q. That is correct?—A. Yes.

Q. What I am now trying to bring out, perhaps in my novice way, is this. We are bringing in an Industrial Development Bank bill here to provide money for industry in competition with money that is available, or credit that is available to the extent of 2 billion dollars in the chartered banks. That is correct?—A. No. Because if an industrial concern could obtain credit either from the banks or through the open market on reasonable terms, as the bill indicates, it is not the intention that the Industrial Development Bank should fill those needs.

Q. I agree with that. I was quite cognizant of that fact in the reply yesterday. But taking the reply in its entirety, you are still going to build competition to the investment of private funds if you assist any industry through the Industrial Development Bank on long-term credit. Do you think that I as a depositor, or with funds, am going out and invest my funds in competition with a government-subsidized industry?—A. It is not a government subsidy, so far as I can see, at all.

Q. If it is not "subsidized," let us use the word "assisted." With a government-assisted industry.—A. Well, is it a bank-assisted industry when a bank

makes a loan? In that sense, yes. But I do not think and never have thought that making a loan by a bank to a borrower or a person buying a borrower's bond, is a favour to the borrower.

Q. I did not use the word "favour", my honourable friend.

Mr. BLACK: Mr. Chairman, why not let the governor finish his statement?

The WITNESS: I think there are two sides to the transaction. In other words, the banks make loans or the public purchases stocks or bonds because they believe the loans or purchases are in their interest as well as in the interest of the borrowers.

By Mr. Fraser (Northumberland):

Q. I am going back to my word "assisted." If this is not to be of assistance to industry, or if there is not that gap and we are not going to assist industry in this country, let us get rid of the bill.—A. We are going to assist it in the form of making credit available. But I think that the definition of assistance there must be the same as in the case of the chartered bank making a loan or of the public making a loan.

Q. With the only difference that we are supplying public funds to the borrower who is not in a position, through either his own investments or some other reason, to procure money through the established channels of credit?—A. Well, it would be perfectly possible to say that if a borrower cannot get the money from a bank because the bank is not in the business of lending long-term money, and if his size and standing is such that it is impractical to get it from the public, then the borrower just has to do the other thing. It would be possible to say that.

Q. He could get it from this bank.—A. Well, I thought you suggested that there should not be a bank and that borrowers who could not get it from the bank should just do the other thing.

Q. I suggest, Mr. Chairman, that the governor is distorting my meaning.—A. Well, I did not intend to.

Q. Well, I apologize. I do not infer that it was premeditated.

The CHAIRMAN: Mr. Fraser, I am quite sure the governor did not intend to distort your meaning. But I might suggest that the governor give us a practical illustration—

Mr. JACKMAN: Hear, hear!

The CHAIRMAN: —of what he has in mind, that industry has not been taken care of.

Mr. JACKMAN: Hear, hear!

The WITNESS: By citing names? I cannot do that.

The CHAIRMAN: Citing industries.

By Mr. Fraser (Northumberland):

Q. We can get concrete cases.—A. Yes. I can give you concrete cases from my past experience, but without citing any names.

The CHAIRMAN: Yes. Go ahead.

The WITNESS: I can think of numerous cases which came to me during the time I was in a commercial bank where the concerns were small in size, where they needed \$75,000, \$100,000 or perhaps \$50,000 and they came to me because I was in the business in the commercial bank and they said—and this is particularly in the thirties, because that was the time when I was most closely connected with the loaning business in Canada.

By Mr. Jackman:

Q. About 1930?—A. I was in that from 1929 until I joined the Bank of Canada. Prior to that I was in the foreign end. They would say, "Now, times have been rather bad, but you know that our management is good or we think that you agree with that. We can hold our own, and here is the reason why we believe we can. But we owe the bank on current account a little too much now. We have not got any bonds, we have not got any preferred stock or other obligations. What we do need is \$75,000 to make some improvements in our plant and to have some working capital, so that the bank will not be on our tail morning, noon and night worrying about our situation. What can we do? Could the bank give us a loan repayable over seven years?" Some would not even ask that, as a matter of fact. As a matter of form the answer is or was, "No, we cannot go into seven or ten year business."

By Mr. Fraser (Northumberland):

Q. But it is not now?—A. I beg your pardon?

Q. They will now.—A. I am coming to that in a moment.

Q. Sorry.—A. Then the man would say, "Would we have any chance of interesting an investment dealer? Could he do that?" You would say, "Try so and so and so and so." They rarely believed that an issue of that size in such a concern was practical. Then he would come back and say he had failed and he would say, "Well, what can I do?" So you would say, "Well, do you know any individuals in your community who would put up the money?" He would say, "I have tried that. I might get \$10,000 or \$20,000, but really with the way things are and people's reluctance to tie up their money in non-marketable stuff, I just cannot get people who will put up \$75,000." The answer then is, "Well, sorry, you will just have to struggle along and do without your additions and see how you make out."

The CHAIRMAN: Mr. Fraser, may I just suggest that the governor misunderstood my question. I was speaking of specific industries at the present time that require or might require assistance of that kind.

The WITNESS: That is an impossible question to answer, Mr. Chairman.

The CHAIRMAN: That is all right, then.

Mr. TUCKER: In addition to that, Mr. Chairman, did they not take the attitude that the outstanding money they owed should be repaid and cripple them worse, quite often?

The WITNESS: They should not have taken that attitude, and did not, to the extent of putting the person out of business. But if on top of the rather top-heavy current loan that concern wanted to spend an additional \$50,000 on new machinery, they would say, "Oh, no. You cannot do that because your current obligation is already too high. You will have to get long-term money for that purpose." He would say, "Where can I get it?" and the answer is, "I do not know."

Mr. FRASER (Northumberland): Mr. Chairman—

Mr. MAYHEW: Mr. Chairman, I wonder if I might say a few words. I wonder if it would not be possible for either Mr. Fraser or the governor, Mr. Towers, to take a hypothetical case of say a man who wanted \$50,000 for an industry, and we will say that the management is good. He has three chances. First, has he got that from himself and his friends? If not, he has to go to the private banker and sell stock or else go to the chartered bank and borrow money. Now he would have a fourth. This is the other. I wonder if he could not give us a hypothetical case and see where the fellows would end up. I have a good idea myself as to where he would end up in the three forms, because I have been through it. I would like to see him get it.

Mr. RYAN: Will you permit me to ask a question?

Mr. FRASER (*Northumberland*): Yes.

By Mr. Ryan:

Q. Mr. Governor, in your connection with commercial banks, such as you have related here, the case you have described is one of the numerous cases that came before you during that time, is it not?—A. Yes.

Mr. KINLEY: May I ask a question?

Mr. FRASER (*Northumberland*): Yes.

By Mr. Kinley:

Q. As a private banker I suppose before you demanded repayment of a loan you took into consideration the condition of the company, that is, you were looking towards the safety of the bank and seeing to it that you got as much money back as you could before any disaster happened?—A. Yes, but with this proviso, that in the interests of all concerned that desire to collect should not be pressed so far that it seriously prejudices the business and causes it to fold up.

Q. Of course, there was a condition where you got in so far you had to stay in. If you get far enough into a bank they dare not drop you. There is this point. Was not the real trouble in those days that there were no markets and no business? People could not do business and make a profit and therefore did not need money and there was no justification for them having money because there was no business. Was not that the whole trouble?—A. During a period of falling business or very bad business the situation that you mentioned exists. Later on, however, when the tide turns then you may find that a concern can profitably do some modernization or extension to take advantage of better times if it can find credit to do it, but if, on the other hand, it has a rather poor current liability position and cannot do long term financing, then it is in a difficult way.

Q. But no bank was demanding repayment of loans from an industry that they thought would carry along and would not get into serious difficulty?—A. No, but on the other hand if their current loans were already heavy they could not or did not add to those by extending long term credit, seven or ten-year credit for capital additions.

Q. The chartered banks would give money to anybody in those days that had a good story and could show they could make a profit, and the thing was secure?—A. Not with a loan which would be outstanding for ten years.

By Mr. Tucker:

Q. Just on that point, did not bank management always frown on loans that went on indefinitely and were not cleaned up?—A. Yes.

Q. In other words, the idea was to keep the position liquid, and they would frown on a loan that was repeatedly renewed?—A. The short term loan was the ideal loan. Loans did not always approach the ideal, but that was the goal.

By Mr. Fraser (Northumberland):

Q. Just on this point so as to clear it up, would you not say, as to the companies coming to you for loans that you referred to, that in your banking discretion, even with the blockade of a long term possibility, you would refuse the loan, anyway? My experience in such cases was that 75 per cent of them should go out of business at that time for their good and every-

body else's. To substantiate that, the province of Ontario rescinded the Act that provided for municipalities bonusing industry because, as I said the other day, there were industrial tombstones all across Canada. The town I come from had six industries which the town had bonused in one way or another and which had gone hay-wire. These things happen in industry. I do not think there is any purpose in enlarging it. That is strictly a matter of business analysis, trends, conditions, frailties and everything else. Coming back to this bill I just want to clarify my own reading of the bill, and did I understand you to say the other day that it was the intention to sell bonds of this bank to the public?—A. To make issues of debentures of this bank as a form of borrowing money which debentures could be bought by the public or by a bank or other financial institution, or by the Bank of Canada.

Q. Would you suggest they should be offered to the public?—A. I would suggest they should be available for public purchase, yes.

Q. In that case what representation would you give the public, or where would the public get its representation?—A. The public as bondholders are not represented on any company unless and until the bonds go into default.

Q. If you drew public investment into this bank would there be any provision—I quite know that as a bondholder—made whereby the investing public would be represented on the board of directors of this bank?—A. No.

Mr. MAYBANK: Would it be worth anything to the bondholders if it were there? Is not this what would happen if it got into the position where the mortgagee would normally take control? In this particular case the government would have to assume that liability. There would be no percentage in the bondholders having any such power.

By Mr. Fraser (Northumberland, Ont.):

Q. There is a very interesting publication published by the Department of Trade and Commerce. It is the *Commercial Intelligence Journal* and I am quoting from the issue of July 29, 1944, under the heading of United Kingdom Herring Fisheries:—

A Herring Marketing Fund is also to be established with a grant of £200,000 for the purpose of making loans to finance export trade and of aiding operations which require working capital. Another £250,000 will be ear-marked for expenditure on market promotion, schemes to revive winter fishing, and for experiment and research.

That is in the publication I mentioned.—A. This is a proposed United Kingdom government organization, is it?

Q. This is a proposed United Kingdom government organization. I may say I only read one paragraph. There are half a dozen here. For instance, let me read one clause:—

—with extended powers, and the allocation to it of a grant of £820,000 over a period of five years to assist fishermen and others—

Now, Mr. Chairman, I want to bring this bank bill into the orbit I endeavoured to a few minutes ago. My question to the Governor is in view of state contribution such as I have mentioned to the herring industry in Great Britain would you advance funds to me or to Mr. Noseworthy to establish a herring industry in New Brunswick or Nova Scotia in competition with Connor Brothers or somebody else in view of what is being done in England? It is extremely important, and I think I will repeat it, aid to finance export trade, aid to marketing operations and expenditure on market promotion. Would you suggest that your bank lend money to the herring industry in Canada?—A. If the particular enterprisers

concerned had sufficient money of their own to put up, and if the particular proposition looked as if it was going to be successful and therefore was going to be a reasonable bank risk.

Q. That is just exactly the reply I expected and wanted. I want you to focus your mind on what I read, and how you can focus your mind. Are we going to subject the Canadian herring industry to bonused state-aided competition from England or any other country?

The CHAIRMAN: Pardon me; I think that question should be addressed to the minister rather than to the Governor of the bank.

Mr. TUCKER: It has got nothing to do with this bill either.

Mr. FRASER (*Northumberland, Ont.*): I will ask the question of the honourable minister. I only had in mind, Mr. Chairman, that the Hon. Minister of Finance, like myself and all other members, will go by the wayside some day, but the Governor of the Bank of Canada, like the deputy ministers, will go on forever. He will be in the position of contributing his advice to the policies of incoming governments whenever that may be.

The WITNESS: Not indefinitely, but I know what you mean.

The CHAIRMAN: The Governor is only the banking hand of the minister. The tariff hand is the other side.

Mr. FRASER (*Northumberland, Ont.*): I just got a jolt from my friend, Mr. Noseworthy. He said, "Do not be too sure about going on forever." I am more sure than he is.

By Mr. Fraser (Northumberland, Ont.):

Q. Let me get back on this point because it is extremely important. How would you suggest we would protect the herring industry, to which you are going to lend or contribute government funds, against the export of a subsidized industry from Great Britain? By tariff?—A. The herring industry is perhaps not the very best one to use as an illustration. It might be they were not qualified under the Act, but never mind that. I would say this, that the bank as a lending institution should think in terms of the prospects of the enterprise, and that it should not get into the field of governmental determination as to whether an enterprise should be allowed to develop, or an existing enterprise allowed to continue because of certain questions relating to international trade. That is in the field of government.

Q. Excuse me; are you speaking now as a private banker or are you speaking as the Governor of this bank and the Governor of the Bank of Canada?—A. I am speaking as the prospective manager, so to speak, of the Industrial Development Bank.

Q. You are speaking in terms and from the viewpoint of a private banker. I suggest when you are appointed Governor of this bank you are administering public funds under an Act passed by a government and for a government institution. You are not dealing with it as a private banker.—A. Not spending public funds unless there is a loss.

Mr. McGEER: You are empowered to buy stock.

Mr. BLACKMORE: With Bank of Canada bills.

By Mr. McGeer:

Q. You are empowered to buy stock under this Act?—A. That is true.

Q. You can spend as well as lend?—A. If buying stock is spending; it depends on the ultimate value of the stock but I would conceive the duty of this industrial bank as a lending institution designed to fill a gap would be to operate on the basis of an ordinary lender, that is, taking such risks as it thought it could and should, bearing in mind the outlook for the industry, and international

competition enters into that, but not translating itself into an agency of government policy in respect to the existence of a certain type of industry in Canada. That is a matter of government policy which I think has to be applied to all parts of the industry, both those which can obtain credit from a private source and those which come to the Industrial Development Bank.

By Mr. Fraser (Northumberland):

Q. Mr. Towers, notwithstanding what you say I might suggest you will find you will be very much of a branch of government. You have got 245 constituencies in the Dominion of Canada and you will probably get pressure from at least 145 of them, group mass pressure, pressure of geographical availability for industries, pressure of raw materials, pressure, as has been mentioned by my good friend, Mr. Kinley, from the maritimes, pressure from western Canada. You will want agricultural implements; you will want oil companies. You will be under pressure because you are a public institution for the assistance over a long period of certain industries, the giving of capital assistance from this government bank. You will be under pressure from different parts of Canada. I submit to you you will find you are not sitting in the position of a private banker or any other lending bank which you mention.—A. You will recall, of course, that the central bank also can be exposed to pressure and that it has its duty to resist that, or if it finds it impossible it is the duty of those concerned to move off to some other place.

Q. As a member of parliament if I ever got past the plush door of your sanctum sanctorum and got my feet on the Persian rug under your mahogany desk I would be told very plainly that the Governor of the Bank of Canada would not tolerate any political interference because he does not have to. This is a different proposition. You are now going to lend to individuals. You are going to come into contact with the individual borrower which you do not do in the central bank.—A. May I say two things there? One is that the door is always open wide and that the entrance of yourself or anyone else is very very welcome. There is no attitude of—

Q. I did not mean that. —A. I agree with you that public pressure on a bank such as the Industrial Development Bank would undoubtedly be greater—

Q. There, Mr. Governor, is perhaps the first real concrete answer you have given to-day. I am going to take up the time of this committee for another five minutes if I may so as to wind up my submission.

The CHAIRMAN: Mr. Fraser, I think the governor wanted to make a further statement.

Mr. FRASER (*Northumberland*): I am sorry, I apologize, Mr. Governor.

The WITNESS: I have a list of certain things which were raised yesterday.

The CHAIRMAN: All right, then. Just a minute, before that statement is made; I have been asked by Mr. Noseworthy for the floor when Mr. Fraser has finished. Would it be your pleasure that I do that, that Mr. Noseworthy should be given the floor?

The WITNESS: I can run through this in outline and deal with certain things which were left in the air.

Mr. FRASER (*Northumberland*): I will just take five minutes. What I want to do finally is to present to this committee, Mr. Chairman, the matter of what we are going to do. This bill is obviously a step toward socialism. There is no question in the minds of anybody as to that. Even my good friend on my left here considers that this bill is a socialistic bill, it is a step towards state socialism. It is a step towards it; it is pointing the way. What we suggest to the government is that if we pass this Industrial Bank Bill, which in my opinion and the opinion of others here who have had plenty of experience, would be a first step toward the injury of private enterprise, it will injure enterprise

that has been built up over a long term of years by the sweat and toil of thousands of people across Canada. And now, the question arises why not just make one final jump into socialism with all the blood and tears that we have had in Europe.

Mr. TUCKER: That is what the C.C.F. want.

Mr. FRASER (*Northumberland*): We are doing that if we pass this bill. It is a socialistic bill. Let me quote something from a person whom we all hold in the highest esteem and who is held in the highest esteem throughout the world; it is very potent at this time:—

We must be aware of trying to build a society in which nobody counts for anything except a politician or an official, a society where enterprise gains no reward and thrift no privileges.

The Right Hon. Winston Churchill.

Some Hon. MEMBERS: Hear, hear.

Mr. FRASER (*Northumberland*): It seems to me particularly when it was uttered by the Prime Minister of Great Britain, that in that one paragraph there is sufficient emphasis and import to impress the sponsors of this bill, at least to the extent that amendments and modifications will be made; first, which will protect the public funds; secondly, which will do what Mr. Churchill says, protect industry and thrift, and at the same time recognize the characteristics and history of the British Empire which has made such an impression on the author of this statement, and which shows clearly that there are some assets to be considered with investment in conjunction with public funds. Thirdly, this bill on the very statements made by the Deputy Minister and the Governor of the Bank of Canada, should have some limitations. You say you are going to assist small industry. As I said to you yesterday, Mr. Governor, an industry with capital of half a million dollars, is not a small industry. You can run a bank on that much money.

Mr. McGEER: Yes, and a pretty big bank too.

Mr. FRASER (*Northumberland, Ont.*): These are the things which must be taken into consideration in connection with this bill, and most important of all are those factors which are outlined in the quotation I read. The government of the day with your co-operation and your counsel must decide what we are going to do with industry in Canada. Are we going to fight the world the way we have been doing in the past with tariff protection? Tariff protection has been necessary for industry in the past in order to keep it alive, and that tariff protection will be as necessary in the future as it has been in the past, particularly if you undertake under the clauses in this bill to advance long term loans to uneconomic industries in competition with the present established industries in Canada. I asked you three very potent questions this morning, three important questions; and the purport of them is: What you are going to do with imports and exports, and how far are we going to set up national socialism, economic nationalism.

Some Hon. MEMBERS: Hear, hear.

Mr. FRASER (*Northumberland, Ont.*): Those are the points which, I submit, will have to receive consideration not only by the minister and his deputy and by the Governor of the Bank of Canada and his deputy, but as well by any future government which they will have to take into consideration in connection with the long range and broad viewpoint, not only in respect to national affairs but international affairs as well. If you do not do that the country will add its full weight, intensely or otherwise to the morass, to competition, to the establishing of international barriers and barricades of international trade; and in that way we will be guilty of putting the onus on our own shoulders for using the Dominion of Canada as an instrument to bring on another depression

followed by another war. We had all this, Mr. Chairman, in the Imperial Economic Conference of 1932. I am not going to make any reference to the Prime Minister of Canada of that day, or to representatives of Britain or representatives of the other dominions who sat in Ottawa. But in 1932 in the city of Ottawa in the presence of the then Prime Minister of Great Britain in conjunction with the delegations from the other dominions and colonies of the British Commonwealth of Nations we said we would make the world pay tribute to do business with the British Empire, we would force our way into the markets of the world. I submit to you, Mr. Chairman, and the Minister, the deputy minister and the Governor of the Bank of Canada that we are taking the first steps right now in this Industrial Development Bank Bill to lay the seed once again of the very thing that brought on the catastrophic depression and that led up to the terrible holocaust of the war in which we are now engaged.

And now, Mr. Chairman, I apologize for being so emphatic on this matter, but it is my humble opinion that those are the steps which will follow from the adoption of this bill.

The CHAIRMAN: I have already promised Mr. Noseworthy that he would have time. I think Mr. Governor, if you don't mind, I will let him proceed. You can reply to Mr. Noseworthy then at the same time as you make your further replies to Mr. Fraser.

The WITNESS: May I make a remark, Mr. Chairman?

The CHAIRMAN: Yes, Mr. Governor.

The WITNESS: There are two things: one seems to be the implication that this institution would lend long term money to uneconomic industry. I have tried to suggest again and again that it should not do so, will not do so unless it is mismanaged. It will loan money to enterprises where already capital is invested or where capital from private sources is being provided. The banks' loans will supplement that private capital to the extent that the lending institution thinks it can safely do so.

Mr. FRASER (*Northumberland*): That is not provided in the Act.

The WITNESS: That depends on the management. The management should not give money away; in other words, it should not take foolish risks; and if the management is capable it will not do so. If it is incapable, then that is another story.

And now, as to the other implications of Mr. Fraser's remarks. There we get into a much wider field, and I can only express the views of an individual. If the consequences of the creation of the bank are so serious I hope attention will be paid to this question in the United States, where facilities similar to those proposed by the Industrial Development Bank now exist, and in the United Kingdom where they are going to be furnished in one way or another, and in various other countries. Canada is not proposing anything very unusual.

This particular proposal may or may not be a good one. That is a matter of opinion. But for what an individual's opinion may be worth, I think we would be making a very serious mistake if we should decide not to undertake a certain form of state activity simply because it was an activity in which a socialist state might engage. The bogey of socialism—or perhaps out of respect for Mr. Noseworthy I should say the prospect of socialism—should not be allowed to cloud our thinking or stultify our policy. We have to live in the present. I wonder if we all realize what kind of a Europe is going to emerge from this war.

Mr. FRASER (*Northumberland*): We do not realize it; no one knows.

The WITNESS: In Europe, the extent of state activities is going to be infinitely greater than ever before; and that is going to be true of the country whose Prime Minister Mr. Fraser has quoted with approval. In that country,

they are going to be willing to try out new ideas. They will not reject a promise of advancement through fear of moving into a new field. They will not be deterred from taking positive action simply because that action involves some state participation in their economic life. They will try to achieve a working compromise between the type of organization which involves a very high degree of public control and regimentation, and the theoretical state of laissez-faire which was the goal of most nineteenth century thinking. With their genius for compromise, it may well be that the United Kingdom will give the lead to many countries in the very difficult times which lie ahead of us.

Mr. FRASER (*Northumberland*): Yes, and we will barricade ourselves against them and we will go on doing the same old things.

The CHAIRMAN: Have you finished with your statement, Mr. Towers?

The WITNESS: There is something else which I could add.

The CHAIRMAN: You may wish to reply to Mr. Noseworthy because I understand he has some questions he wishes to bring up.

Hon. Mr. ILSLEY: I think the governor ought to make his statement.

The CHAIRMAN: Let us hear from Mr. Noseworthy.

Mr. TUCKER: I would like to know if I have any rights in this committee?

The CHAIRMAN: Yes.

Mr. TUCKER: I suggest that the governor be allowed to make his statement now, before Mr. Noseworthy asks his questions. If necessary I would go so far as to make a motion to that effect; I would move that we hear the governor, Mr. Chairman.

Mr. McCANN: The chairman ruled against you.

Mr. TUCKER: The chairman had no right to rule against me. I made a motion; I move that the governor be heard before Mr. Noseworthy.

The CHAIRMAN: Mr. Towers, have you any objection to giving way so that Mr. Noseworthy may make his statement; you must remember that Mr. Noseworthy is also a member of the committee. Would that be agreeable to you, Mr. Noseworthy?

Mr. NOSEWORTHY: Except for this, Mr. Chairman, that unfortunately I had booked other engagements that will make it impossible for me to attend another session of the committee and I want to take a few minutes on this particular question.

The CHAIRMAN: Is it the pleasure of the committee?

Mr. NOSEWORTHY: I am completely at the will of the committee; if they wish to have the governor make his statement I am quite prepared to wait.

The CHAIRMAN: I think under the circumstances we should allow Mr. Noseworthy to make his statement. The governor will be with us again when we meet on Tuesday or any other day.

Some Hon. MEMBERS: Hear, hear.

The CHAIRMAN: Mr. Noseworthy, will you proceed?

Mr. NOSEWORTHY: I want to thank you, Mr. Chairman, and the committee for the privilege. I am surprised at the opposition which has apparently developed in the committee over this particular Industrial Development Bank Bill. I was, in fact, more surprised that the government should have introduced the bill in the first place and at the little opposition which it received in the house. The statement has been made here this morning that this is the first step toward public ownership, socialism. If I am at all able to sense the feeling of this country, and I do not profess to be able to do that more than anyone else here, I am inclined to think that the reception

which this bill meets in this committee and the house, and the disposition of this bill, will determine in the public mind of this country the extent to which this committee and this parliament is free to act in the interests of small business and small industry as against monopolistic enterprise in this country. My opinion is that if this bill is defeated in this committee or in the house, it will be taken throughout the country as evidence that we have not to-day in Ottawa a parliament that is free to legislate in the interests of any one except big business in this country. That, in my opinion, Mr. Chairman, is what I believe will be the effect of the rejection of this bill in this committee and in this parliament.

My surprise at the government's introducing it, and lack of surprise at the opposition it has received in committee, is based on the fact that I think the bill does recognize, in principle, that our private financial system as it has been operating in the past has not done its job. I think by the very introduction of this bill the government is admitting that these institutions have failed to finance economic enterprises that are useful and necessary to a healthy economy. I think we have either to accept that explanation of the introduction of the bill or to accept the other alternative, that the government proposes now to subsidize uneconomic or sub-marginal concerns that would involve a waste of public money. I think one or the other of those alternatives must be accepted as an explanation for the introduction of the bill. From a reading of the evidence that has been given on the bill, I gather that most of the criticism takes the position that with the introduction of this bill the government will proceed on its way to the subsidizing of uneconomic and sub-marginal concerns. I notice, for instance, that members of the committee feel that this Industrial Development Bank will be used to finance concerns that cannot rely upon our present financial institutions such as our banks, our mortgage houses and loan companies, to finance their undertakings, and consequently that any financing that the government does through the Industrial Development Bank must, of necessity, be unsound or uneconomic. I find members of the committee, for instance, using the phrases as these. The Industrial Development Bank, or section 15, is referred to as "lame ducks incorporated", "financial wet nursing", "subsidizing nitwits who cannot manage their own affairs", "government speculation", "cats and dogs" and so on. Those have been phrases which I have gleaned from the evidence submitted in opposition to this bill. I want to make it quite clear that I cannot agree with that assumption. I think it is all too obvious, and certainly was obvious in the 1930's, that there were many soundly-managed small businesses whose production was needed by the Canadian public or would have been needed—businesses that were sound and would be needed in a sound and healthy economy—that did run into financial difficulties and went under; many others were unable to get established during those years due to the difficulty of securing adequate credit facilities and other causes. I do not think we can argue that every business that fails or every business that cannot get established on a firm footing is necessarily unsound or poorly managed. That is the equivalent of saying what was often said of those who were unemployed in the 1930's, that they were all men who did not want to work or were ne'er-do-wells. That is the equivalent of saying that there are no factors in our modern economy over which the individual, the small business man, has no control. I do not think there is a member in this committee who is prepared to take that stand. There are forces in our economy over which the individual, particularly the small business man, has no control; and it is often those forces that are responsible for his failure and not the unsound nature of his business or the fact that it is poorly managed.

I am inclined to agree with the statement made to the committee by the deputy minister and the Governor of the Bank of Canada, that there has been a gap in the credit facilities, a lack of credit of the kind that is needed in certain lines of industry. I do not consider that necessarily a condemnation of our present existing financial concerns or our banks. It is a serious shortcoming in our present private financial system but not one for which they should be condemned. It is true the banks have not been legally, as the governor said in committee, prevented from going into the intermediate or long-term credit business. The fact remains, however, that they have either been unwilling or unable to do so. There has been a need for some institution that can meet that need in this country. The principles underlying the Industrial Development Bank, it seems to me, are an open admission, as I have stated, that private enterprise has, in practice, failed in certain important respects not only in banking and in finance but in other lines. The principle of private enterprise is justified by all those who support private enterprise on the ground that it promotes the utmost efficiency. An individual puts up his own money or he borrows someone else's money and puts into his business, and he has a very personal interest in making a success of his business in order that he can pay profits. This is true, as I think every member of the committee will recognize, if there is competition to force such a concern to reduce its costs in order to achieve efficiency. But when a concern becomes a monopoly and can make more profit by restricting production, by exploiting the employee, or by exploiting the consuming public through unduly raised prices, then private enterprise can no longer be said to be efficient and can no longer be said to be functioning in the interests of the country. That is the situation which I think we are confronted with in this country, and I take it that that is the situation which the Industrial Development Bank is designed to overcome.

I had the experience only last week of having a long interview with a business man in the city of Saint John, New Brunswick. That man's father had established a business in that city back in the 1860's. The man to whom I was speaking had himself been managing that business for over twenty years. The business is one that is well known throughout the maritimes. They had been a reasonable financial success. They had always been able to meet their obligations, and had established a good reputation throughout the maritimes. When I went into the store I found the man in the act of shipping all his goods out of the store. He told me that there were at the present time so many chain store organizations in this particular line, after being in business in that city for over seventy-five years, he was finding it absolutely impossible to carry on any longer and was disposing of his stock to one of the chains in that city.

Mr. McGEER: How could the Industrial Development Bank help him?

Mr. NOSEWORTHY: Possibly not. That is the situation that faces this country. It was not due to lack of credit in that—

Mr. KINLEY: He does not want money. He wants business.

Mr. NOSEWORTHY: But as I pointed out in this committee formerly, you have a banking system with a web of interlocking directorates, with directors on practically every large monopoly in this country; and regardless of what the bankers may say, you cannot tell the small business man anywhere in this country that those monopoly enterprises have not received favours or found themselves in a favourable position. We are gradually—

Mr. KINLEY: Mr. Noseworthy, will you permit a question?

Mr. NOSEWORTHY: We are gradually eliminating competition. Whether this bank will serve the purpose or not is another question; but apparently the purpose of this bank is to enable small enterprises, small businesses, to remain in business and compete against the large monopoly enterprises of this country which are gradually squeezing them to the wall.

Mr. KINLEY: Mr. Noseworthy, will you permit a question?

Mr. NOSEWORTHY: Yes.

Mr. KINLEY: Just for the purpose of argument, let us say—

The CHAIRMAN: A little louder, please, Mr. Kinley.

Mr. KINLEY: Suppose we admit for the sake of argument that the interlocking of directors is a thing which is not in the best interests of the public. What do you say about a government monopoly with an interlocking directorate with judicial power over a body that is going to go into the loaning business, which is the present set-up of this Industrial Development Bank?

Mr. NOSEWORTHY: I am not quite clear as to what you are getting at.

Mr. KINLEY: The Governor of the Bank of Canada has judicial powers over the other banks, I would say, in the absence of a better word, or semi-judicial powers over the other banks. He is the umpire controlling the banks of this country. He interlocks his directors with men who are in business all over Canada, in different parts of the country and they are his advisers; and he goes into competition with the other banks and sets up a financial dynasty in this country which will grow more powerful as the days go by.

Mr. NOSEWORTHY: Not if that banking system is subject to an elected parliament representing the people of this country.

Mr. KINLEY: They are all subject to that. The banks of Canada are subject to that. We had them here for three weeks.

Mr. NOSEWORTHY: You are perfectly entitled to take that position, and there is no position that I would rather see the opponents of public ownership take in this country than that. There is no position that you can possibly take that will give more help to those of us who are advocating public ownership in this country.

Mr. KINLEY: I have no objection to public ownership if it is free enterprise, if it is on the level. But I do not like it to have privilege.

Mr. NOSEWORTHY: We are never going to be able to know whether it can be free enterprise or on the level until we have tried it; and you will never try it as long as you leave business in this country tied up as it is at present—

Mr. KINLEY: Let us start out level, anyway.

The CHAIRMAN: Gentlemen, I suggest that we allow Mr. Noseworthy to complete his statement without interruption.

Mr. NOSEWORTHY: Following the war I think we all recognize that the government will be obliged to spend government money on enterprises of various kinds in order to provide employment and to maintain production and our national income. I placed on record some time ago a survey made by the Financial Post which, while it is not an exhaustive survey, is clearly indicative of the fact that we cannot reasonably hope for private enterprise to make the necessary capital investments after the war that will be required to maintain the production necessary for a national income that will give us prosperity. If the government will be under the necessity of embarking upon public expenditures of one kind or another, then I can see no objection to the establishment of the Industrial Development Bank which will give small industrialists and small business men a chance to survive in the post-war years against the monopoly interests which are gradually assuming control in the country.

The question was raised this morning as to whether an official of this bank should have the right to determine whether or not a given product be produced in this country, whether it was necessary to produce that particular product, and the assumption was that by assisting a given industry by way of a loan the government would be determining whether or not that product should be produced. I can see no great difference, no fundamental difference, between

leaving an official of the Industrial Development Bank to determine whether a certain business is to be assisted in the production of a certain product and leaving the manager of a private bank to do that, because when a small industrialist or a small business man comes to the private banker for assistance that private banker determines whether the man is to be assisted or whether he is not, whether his product is to be produced or whether it is not to be produced.

Mr. FRASER (*Northumberland*): Not with public funds, though.

Mr. NOSEWORTHY: The funds come out of the public in the long run, whether it is paid out directly by the government or whether it comes from the public through increased price of the article or some other way. It is the public that pays this in the long run. It is just a question of the form in which public money is to be paid out, and to my mind there is no fundamental difference between giving the right to an official of the Industrial Development Bank to determine whether this or that business shall be assisted and giving that right, as we do to-day, and as those who oppose this bill propose shall be done in the future, to the private banker.

I note that there has been a suggestion made to the committee that this business should be handled through the existing banks as it is proposed to handle the farm loans and that the government should undertake to guarantee a percentage of these loans, in other words, to protect the lender against any losses. What you are doing there is you are gradually bringing the government into the position where they undertake financing in the interests of the public economy where there is very much of an element of risk. You are asking the public to assume that risk. You are asking the government to assume the unprofitable end of the banking business and you are proposing to leave the entire profitable part of that business to the private banks.

Mr. KINLEY: Will this bill not do just that?

Mr. NOSEWORTHY: I simply want to say that I am supporting the Industrial Development Bank. So far as I know—and I have not been able to read all the evidence—I have not read of any member of the committee who has come out openly and vigorously in support of the Industrial Development Bank. Even those who were loudest in their demands for monetary reform, for the government doing its own financing, for 100 per cent reserves, for the revelation of the inner reserves, and so forth, have not come out openly and vigorously in support of this particular bank. As I said at the beginning I am quite confident that opposition to this particular government bank will be accepted throughout the country as evidence that we are here under the domination of the financial interests of this country. Thank you.

Mr. McGEER: I do not think that statement should be allowed to go, that we are here under the domination of any financial interests. I do not think there has ever been a Banking and Commerce Committee that has been more outspoken and more independently in conflict with banking practice. I do not think that is fair.

Mr. KINLEY: May I just say a word? I want to impress upon the committee that the Governor of the Bank of Canada in his hypothetical case used \$50,000 or \$75,000 as an example of what should be done in connection with this bill. Mr. Noseworthy, I was pleased to see, in his thesis said this was for the purpose of small business rather than centralized business in Canada, so the middle man will have a chance; that this fills the gap in business; and my whole argument in connection with this bill is that it should be kept in the realm of small business.

Mr. RYAN: Mr. Chairman, may I just say a word? Mr. Noseworthy in a reply to Mr. Tucker said that no member of the committee has come out here in strong support of this measure. May I say for myself it has been very difficult to make a statement because I have had no opportunity.

The CHAIRMAN: You will have plenty of opportunity later on.

Mr. TUCKER: Mr. Chairman, if I may please?

The CHAIRMAN: Yes. I didn't see you.

Mr. TUCKER: I leave the committee on Saturday night and in view of the intense interest this subject has raised and particularly in view of the statement of Mr. Noseworthy which I consider an entirely unwarranted reflection on everyone of the committee, I want to say that none of us has had any chance to say anything on this matter as yet. Before leaving I would like to say that I endorse the last remark of Mr. Towers; and I endorse the government's action in bringing this bill in because I feel that it will be of great assistance to the returned soldier in helping him to get established in small industry when he returns to this country after the war is over. I think it will help small industries in establishing themselves in western Canada. I want to commend the government most heartily for bringing this measure in. I would like to have been able to say very much more in support of the bill but I do want to say this that I endorse the action of the government in bringing this bill before parliament and this committee, and I hope the bill will go through.

The CHAIRMAN: We will adjourn until 11.30 Monday morning.

The Committee adjourned at 1.05 o'clock, p.m., to meet again on Monday, August 7th, 1944, at 11.30 o'clock, a.m.

August 7, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Order, please. Gentlemen, the Governor of the Bank of Canada has a statement which was to be given at our last meeting but was inevitably held over. Is it the pleasure of the committee to hear Governor Towers now?

Some Hon. MEMBERS: Agreed.

Mr. GRAHAM F. TOWERS, Governor of the Bank of Canada, called.

The WITNESS: During the meeting of the committee on Thursday morning several members asked me a series of questions which time did not permit me to answer on that day and which the chairman suggested I might deal with later on. I think that I can save time and a certain amount of duplication by replying to these questions in the form of a general statement covering the same ground.

In part, the questions were directed towards the problem of principle. For example, is the function to be given to Industrial Development Bank one with which government should concern itself or should it be left to private enterprise? Generally speaking the problem of the proper dividing line between public and private enterprise is a matter of government policy on which it would not be appropriate for me to comment.

As you are all aware the Bank of Canada is responsible for carrying out Canadian monetary policy. I realize that monetary policy by itself will not be nearly enough to solve our post-war problems but I am anxious that it should do its full share in the general effort to maintain economic prosperity. As things stand now I am confident that we will be able to maintain reasonable levels of interest rates and keep the banking system in a liquid condition so that it will be able to assist ordinary commercial borrowers. But I have serious doubts about borrowers who need medium or long term credit in modest amounts being able to get proper accommodation from existing financial institutions. In my opinion,

unless this situation is corrected our monetary policy in the post-war years will not be as effective as I would hope to see.

The view which I have just expressed in favour of special machinery to provide medium and long term credit represents a conclusion to which many people in various countries have come, particularly during the past decade or so. With the committee's permission I would like to quote from a survey covering various countries made by the financial committee of the League of Nations in 1939 on the subject of medium term credit to industry, page 13:

"In countries where there is a well-developed banking system and capital market, big industry has in normal circumstances no difficulty in obtaining the financial facilities it needs and can justify, whether in the form of equity money or in the form of short-, medium- or long-term credit. Large undertakings have access to open capital markets where they can sell their securities and to banking institutions where they can finance their ordinary credit needs and bridge over the interval between the time when funds are required and the opportune moment for public issue.

The general problem of financing through public issues becomes increasingly difficult in the case of medium- and small-sized undertakings. Such concerns have trouble in placing public issues, whether in the form of shares or bonds. The investing public prefers to put its money into firms whose names are nationally known and whose securities are listed on an exchange. The success of a small undertaking is frequently dependent upon the ability of one person; and the individual shareholder is unable to exercise the constant supervision and control that capital participation requires in such circumstances. In the second place, the cost of issue and of preliminary investigation is, generally speaking, proportionately higher on small than on large amounts.

The small industrial concern in need of capital or credit has therefore been accustomed to rely on a few individuals or on local banks knowing the business and the management personally. Frequently, such firms are tempted to finance, through bank borrowing, risks which in their nature are the risks of ownership. Such risks are, however, unsuitable for ordinary commercial banks which operate mainly with short-term deposits; nor can these banks afford to tie up their depositors' funds for long periods in the form of fixed or semi-permanent investment.

Medium-term credits can legitimately be granted to industry where the funds will be used productively but where it cannot reasonably be expected that the original advance can be amortised in less than a period of some years. In so far as such medium-term credit requirements exist, it is important for the development of industry and enterprise that small borrowers should be able to cover them. If they rely, however, on short-term bank loans, with prospect of renewal, then not only is there a risk that banking advances will become frozen, but the borrower himself may, at a time of economic pressure, be called upon to repay outstanding financial debts within a period that bears no relation to the original purpose of the commitment,

There is therefore a presumption that some credit institutions should exist for the provision of medium-term credit to small- and medium-sized industry. Certain types of medium-term credit requirements can be met by non-banking institutions: for example, the export-guarantee institutions set up by many governments enable credit to be obtained for fairly long periods to finance exports; large producers with ready access to capital and credit sometimes lease equipment or sell it to small producers on a hire-purchase system; automobile finance and gasoline companies extend credit to purchasers and distributors for special purposes. But such initiatives have not covered the whole field, and in many countries special credit organizations have been set up for the provision of medium-term credit to industry."

Again, with the committee's permission, I would like to refer to the British MacMillan Report of 1931, page 173, where the following paragraph appears:

It has been represented to us that great difficulty is experienced by the smaller and medium-sized businesses in raising the capital which they may from time to time require, even when the security offered is perfectly sound. To provide adequate machinery for raising long-dated capital in amounts not sufficiently large for a public issue, i.e., amounts ranging from small sums up to say £200,000 or more, always presents difficulties.

My main concern in this matter is that the necessary credit facilities shall be available in Canada when needed. If I thought our existing institutions were so situated as to be able to fill the "gap" I would see no particular reason for establishing Industrial Development Bank. The types of financial institutions which we presently have in Canada have not been able to perform this function adequately in the past, indeed have not been expected to perform it,—nor have similar institutions been able to do the job in other countries.

On several occasions, members of the committee have expressed the opinion that it would be undesirable for the government to invade the field of private enterprise. As I have already said, I do not think the function in question has been performed at all adequately by any agency up to the present time so that I do not see how existing agencies can suffer any particular harm. On this point I would like to make the observation that "private enterprise" embraces both lenders and borrowers. The position of private enterprise as a whole will be impaired if private lenders are unable to serve adequately the needs of private borrowers. If the magnitude of our post-war problems to which I referred in my last annual report is anything like a proper assessment of the situation, the alternatives to encouraging small- and medium-sized private business by making medium- and long-term credit more widely available are very likely to be additional public spending in some other sphere—or unemployment.

On several occasions during the discussion of this bill in the committee, it has appeared to me that some of the members see this proposal as an issue between public and private enterprise, with Industrial Development Bank threatening to invade the sphere of private business. I would like to point out that if we are able to maintain a high level of employment after the war we will be producing a vastly greater volume of civilian goods and services than ever before. It is not a question of dividing up the same cake into two different pieces but of dividing up a much bigger cake—big enough to provide a larger slice for both public and private activities than ever before. There are two possible ways for business to try to meet the problems that lie in front of us. One is to face the future boldly and run the inevitable risks of moving on to bigger and better things. The other is to be cautious and concentrate on protecting the present position. If we are to show excessive caution with regard to a measure such as the Industrial Development Bank, then that is a rather sad omen in respect of our success in dealing with the vastly greater risks we shall have to take in the next few years.

Turning now to the matter of specific suggestions regarding the form of the present bill:—

(1) Mr. Slaght thought that it was undesirable for the Industrial Development Bank not to have power to lend to certain other groups such as merchants, for example. The answer to this point seems to me to be that merchants chiefly require short-term credit to finance inventories and receivables, and since satisfactory facilities already exist for providing this type of credit there does not appear to be any point in a public institution entering this field.

(2) Mr. Fraser (*Northumberland*) wanted the Industrial Development Bank to be compelled to take adequate collateral security for its loans. As I mentioned the other day, it is impossible to ensure prudent management by setting up legislative provisions covering such matters. The situation is that the management of Industrial Development Bank would be operating a bank set up in such a way that it is obvious the intention is that the bank should try to avoid making a net loss on its operations. If Industrial Development Bank could not cover its losses out of its revenue, there would naturally be an impairment of capital. I can assure the committee that if it developed that Industrial Development Bank was suffering impairment of capital, that fact would most certainly be drawn to the attention of the Minister of Finance and parliament in the annual report called for under this bill. No sane management would continue to operate a bank under this Act if the operations were resulting in loss of capital, unless parliament had been advised of the fact that the original belief that the enterprise would at least break even had not been realized.

The management of this bank would, I think, have every incentive to be prudent, although I hope they would not be timorous. I do not think that laying down specific collateral requirements would be of any help. If the requirements were not stringent there might be a tendency to bring the standard of security down to the minimum prescribed. If, on the other hand, the requirements were too stringent, then deserving borrowers would not get assistance.

(3) Another suggestion was to confine the scope of the Industrial Development Bank to small and medium-sized enterprises by imposing a limit on the maximum size of loan to any borrower. As I have mentioned on other occasions I am sure that in practice almost all the demands for credit which other lenders will not be able to provide will be in the field of small and medium-sized projects. But, particularly in the reconversion period after the war, there may be a few exceptional cases of deserving larger borrowers not being able to get assistance from the usual sources.

(4) Finally, there was a suggestion that Industrial Development Bank should not be given the right to make direct advances but only to guarantee credits made by other lenders. I hope that in practice the Industrial Development Bank will be able to work closely in co-operation with other lenders in the case of many borrowers. I would like to see an existing lending agency sharing in the risk and operation of as many credits as possible. Under the bill, the Industrial Development Bank direct loans would be confined to those cases where, for one reason or another, private lenders were not interested in making the loan even with a substantial guarantee from the Industrial Development Bank. I would not like to see this "last resort" of the borrower taken away from him by confining the scope of the Industrial Development Bank solely to guaranteeing. The effect of this would be that other institutions would have really a veto power over any credit activities of the Industrial Development Bank, and I should think that the granting of such a veto power would be going too far.

The CHAIRMAN: Thank you, Mr. Towers. Mr. Graham has the floor.

Mr. GRAHAM: Mr. Chairman, I intend to leave the city tonight and I thought before I did I should like to put myself on record as supporting the purpose and the objective of this particular bill being considered by the committee. I sincerely hope that the committee will be able to approve of this proposal and to favourably recommend it to the House of Commons.

I listened with great interest to Mr. Fraser in support of his opposition to the bill. I found myself on occasion in agreement and on other occasions in complete disagreement. I agree with him, of course, when he eulogizes the value of private initiative and the resultant development of creative instincts. That is encouraged by leaving industry generally speaking to private enterprise. Yet, as the Governor of the Bank of Canada has pointed out, we know as a fact that there is within the field of credit a missing link with regard to the provision of the requirements of capital for small industry. I would point out, Mr. Chairman, that I was delighted to hear Mr. Fraser decry the necessity of tariffs and other forms of artificial protection for Canadian industry. It struck me that this was at variance with his argument that Canadian history shows that private industry has been wholly the contribution of men who established it by the sweat of their brows and the unremitting attention that they gave to a particular business, and that those factors alone have contributed to the success of private industry in Canada.

Mr. FRASER (*Northumberland*): I did not say that.

Mr. GRAHAM: I would recall that we in the west hold that ever since confederation the trade policy, the railway policy, and to some extent the financial policy has sought to give a measure of protection to Canadian industry which I think, in the long run, has been detrimental inasmuch as they were kept under an umbrella when, in fact, they should have been taking the initiative that Mr. Fraser is so proud of, by finding markets outside of the confines of Canada.

The CHAIRMAN: Mr. Graham, I would suggest that we do not get into tariff arguments.

Mr. GRAHAM: I am not going to.

The CHAIRMAN: Otherwise I would have to remind the honourable member that agriculture is also protected.

Mr. GRAHAM: Yes. But agriculture has been much less protected.

Mr. FRASER (*Northumberland*): It is the highest protected industry in Canada.

Mr. GRAHAM: Oh, no. However, I do not propose to argue the matter now.

The CHAIRMAN: I would suggest, Mr. Graham, that on the whole, industry will be very glad to have the average rate of agriculture in its protection.

Mr. GRAHAM: Now, Mr. Chairman, on the proper occasion I should be delighted to argue that and prove the opposite.

The CHAIRMAN: I am just suggesting that you invite criticism; and I would also go further and say that we should leave the tariff matter out of this controversy.

Mr. GRAHAM: Well now, Mr. Chairman—

Mr. SLAGHT: Let the two honourable members hire a hall and debate it.

The CHAIRMAN: Yes. I would suggest that you and I go fifty-fifty on the hall, Mr. Graham.

Mr. GRAHAM: Now, Mr. Chairman, let us be fair in this committee.

The CHAIRMAN: Yes, of course.

Mr. GRAHAM: Apparently the rule is that Mr. Slaght and Mr. Fraser and others can raise arguments, but nobody can reply to those arguments without being called to order.

The CHAIRMAN: No. I have called Mr. Slaght to order more often than any other member of this committee.

Mr. GRAHAM: I know. But I think he has invited it more often. Certainly I have not invited it at all. However, I just make that point in passing.

I do raise the point in particular that regardless of your views or Mr. Fraser's or Mr. Slaght's or anybody else's I know as a fact what I have said is the opinion of the great majority of the people in the western provinces and of a great many in the maritime provinces.

The CHAIRMAN: I agree.

Mr. GRAHAM: It is very wise to keep that in mind. It is a real fact that we who sit in parliament must have in mind. In this period of preparation and in the post-war period which we hope we are soon to enter we should, wherever it is possible, fill the gaps, and give all sections that measure of equality of opportunity that we all should be given to the whole of Canada. I feel that the purpose of this Act is somewhat of an experiment and somewhat encroaching upon the field of private enterprise, but I feel that it will satisfy that irritation to some extent that exists in these parts of Canada which I have mentioned and will help to make Canada's development a matter of satisfaction to more and more Canadians. I see in this bill at least two great hopes. One is that it will decentralize industry.

Mr. BLACKMORE: Hear, hear.

Mr. GRAHAM: I know the difficulties. I do not suggest we should set up in western Canada or the maritimes or anywhere else industries not suited to that particular section of the country, or uneconomic or anything in the nature of a mushroom growth that will be destroyed by the first wind of adversity that blows, but I mean sound industries in the immense territories of western Canada, particularly the province of British Columbia and in Alberta, and I hope in time the northern parts of Saskatchewan and Manitoba with their immense resources of electrical power, and in the maritimes, too. Somewhere we have failed, as Mr. Mayhew pointed out, to achieve that decentralization of industry so valuable to a nation as widely spread out as is this Canada of ours. Secondly we will assure to small industry the opportunity to avoid those moments of financial crisis that come to almost every industry, and particularly the small ones, when the need of working capital, or perhaps new capital for a short period, will prevent them from continuing in operation. You will recall that I hoped this Industrial Development Bank would not be called a bank, but that is only of minor importance. A rose by any other name will smell as sweet to western Canada, but it will give these small industries who may establish themselves in a small way in western Canada, the maritimes and the province of British Columbia an opportunity, if that emergency arises, of turning to the sort of credit that would not be too high in its demands on that particular industry. In some cases there is a demand for merging with a larger industrial organization. At other times it is a straight opportunity to drive that small industry out of business as a competitive factor in the whole economy. Despite what Mr. Fraser says I am delighted that the co-operative movement in the proper field, and coming within the provisions of the Act, will be enabled to secure proper and economic loans to encourage true co-operative enterprises.

Mr. BLACKMORE: Hear, hear.

Mr. GRAHAM: I believe that will help, Mr. Chairman. After examination into many of the larger industries of Canada I believe that these industries are in the hands of the ablest executives and business men in this country, but they have always been heir to a certain narrow selfishness of view that will not fit in with the public temper in this country at the present time. The industrial and competitive life of Canada lacks—and we all know it lacks—the widespread initiative and true competitive spirit that results in giving to the people the best goods at the lowest possible prices. So I feel that if the co-operatives can make use of this Act to build up a co-operative enterprise system that will take 15, 20 or 25 per cent of the market and act as a non-selfish competitive

clement in the whole picture then we will not only be doing our economy a great deal of good but in my opinion we will be doing the industrial life of this country a great deal of good because nobody can live in this age without seeing that public opinion sometimes is easily directed in enmity against these great banking and other corporate institutions. Where sound criticism is properly directed it is all to the good, but where it is based on prejudice, misinformation and misapprehension it is bad for the nation as well as the particular corporation.

I sincerely hope that the minister and those interested in this particular bill will not withdraw it. They, of course, have to accept the majority decision of this committee. I think it is a worth while bill that should be given a reasonable opportunity to declare its usefulness. I think, as the Governor of the Bank of Canada has said, that in the next parliament another committee on banking and commerce can take the report, examine into it, see how it is working out, and consider if it is being used to support uneconomic industries or whether it has fulfilled the purpose which you have outlined to us this morning. I certainly hope, Mr. Chairman, that the committee will see fit to report the bill favourably with the amendments they think necessary.

Mr. KINLEY: Mr. Chairman, I think we are indebted to the Governor of the Bank of Canada for his very cleverly drawn statement which he presented this morning. I do not use the word "cleverly" in any sense of it being smart or anything of that kind. I mean it as the work of an expert well done. I think the committee will admit that the presentation he has made is the best that could be made from the point of view of the sponsors of the bill and that he has left nothing out that he could say that would be of benefit to this bill that is now before the committee.

I supported this bill on second reading, Mr. Chairman, because I believe in the principle but I am labouring at the moment under the primary instructions I received from the Governor of the Bank of Canada and Dr. Clark, the deputy minister. At the first meetings of this committee they stressed the need in this country of small industry, that there was a gap, that the small fellow who wanted to get started or expand could not succeed over the competition of the man who had abundant money and who had access to the banks.

When I received those instructions I believed that they were good instructions. There is the only point where I differ with the Governor of the Bank of Canada. I do it in all humility considering his great experience in the monetary field, but I have had some practical experience in business during my life. I am bound to be bound by my experience, and I am bound to put forward my views as I honestly see them in the interests of the small people of this country.

This legislation is supposed to be supplementary. The Governor brought out in his remarks that it would not be the intention of the government, of this bank, to supply all the capital that a concern needed, but that it would be supplementary, and that money would not be granted to a man who has not some interest in the concern because where a man's treasure is there will his heart be. The measure of what you will give a man as a supplementary item would depend on the risks he faces in his own right.

The Governor says we must face the future boldly. I agree, but boldness is associated with independence, Mr. Chairman. It is easy to be bold with other people's money. It seems to me that if it is boldness the boldness should be inculcated in the individuals of this country, and that they should be bold in the risk and adventure which is a part of life and the operation of business adventures. To make it too easy and to interject things that might be uneconomic will not only be unsound but it will destroy the sound because

if you bring into being things which are unsound to compete with that which is sound it will destroy the whole economy. The uneconomic will always be a feature that is not sound. The law of economics is a peculiar law. If you have enough money and if you have got enough perseverance you can almost make economic things that can not succeed ordinarily but a handicap always gives preference. But when this bill reaches a point where we would make economic by force of pressure of government policy things that would ordinarily not be economic in this country, that is a hazardous thing to do with regard to industry which is supposed to be free to carry on by merit, by perseverance and by service.

May I tell the committee that my riding is a fairly well developed one industrially. I suppose I have about as good a balance of rural and industrial development as there is in any part of Canada in the present war. There is no big industry in the county except one, a paper company which was built in association with the government and the Royal Bank of Canada, and I am sure my friend the governor knows all about it; it was able to obtain government aid and government planning.

MR. JACKMAN: What is the total amount of capitalization of that company, do you know?

MR. KINLEY: I do not know what the total capitalization is but it is a good business, well managed. That is an instance in the industrial life of my riding in that part of Nova Scotia, and I thought it was an act of vision and a step forward on the part of those who got behind the development of that business. I give you that as just an instance.

MR. BLACKMORE: Might I ask a question; did you mean the government of Nova Scotia or the federal government?

MR. KINLEY: The government of Nova Scotia. That concern did not have much difficulty in getting money. I think the trust company associated with the Royal Bank assumed obligations up to an amount—I don't recall offhand just what it was but it was up in the millions, I think. Then there are other concerns in the riding. I know another concern that has a bond issue in the amount of \$88,000. I am sure that company is doing millions of dollars worth of business to-day. I am connected with a company, which has assumed rather large proportions and capitalization of the business is hardly a factor in what the company is doing to-day.

HON. MR. ILSLEY: Is war business a factor in it?

MR. KINLEY: Yes, you might say so; their business activity has extended during the war. There are no war industries as such in my riding, practically speaking; except for one new war industry which was brought in by Montreal companies. The war activity in my riding has been a result of equipment which was established there since before the war. All up and down the coasts of Nova Scotia there are firms and organizations which can do work in connection with the navy and the merchant marine and the essential war effort of this country; and they have been employed, some with the help of the state and others by spending their own money, with the result that there is considerable wartime activity along our part of the coast.

MR. BLACKMORE: Would the hon. member feel free to name those other industries in his riding?

MR. KINLEY: There is Lunenburg Sea Products, which I think is the best fish company in eastern Canada to-day; I think they are most successful. Then there are shipyards. And there is the Lunenburg Foundry Company Limited, of which I have the honour to be president, and we employ to-day some 450 to 500 men. There are many other industries all through the county. Up at Brookfield, up in the back country, we have a wood-working industry,

some wood-working factories which are doing a considerable amount of work; then there are shipbuilding companies—on the whole I think we have a fairly balanced economy in our part of the country to-day.

Hon. Mr. ILSLEY: And there are a good many more, Mr. Kinley, which you have not named; there is the Gas Engine company.

Mr. KINLEY: Yes, we have a gas engine company at Bridgewater and at Chester.

Hon. Mr. ILSLEY: And Thompson's.

Mr. KINLEY: And the Thompson Company over in Liverpool; and all of those industries have been struggling to make a living for many years.

Mr. FRASER: Are they working for the government now?

Mr. KINLEY: Yes, to a limited extent, I am glad to say; they are succeeding by reason of the co-operative spirit of the citizens, they are persevering. Our troubles are mostly of abundance.

Mr. BLACKMORE: Did I understand the hon. member right; that he said their troubles were those of abundance?

Mr. KINLEY: Yes.

Mr. BLACKMORE: Even in wartime?

Mr. KINLEY: Because of wartime, I think.

Mr. Chairman, we talk about price ceilings; if this price ceiling ever breaks things will go sky high; we will have inflation and we will be worse off. What is the thing that will cause the price ceiling to break; the thing that will cause the price ceiling to break is abundance of money, abundance of purchasing power; that is the thing which will break the price ceiling if it is going to be broken.

Mr. BLACKMORE: Do you mean abundance of money, or abundance of goods, when you spoke of abundance a moment ago?

Mr. KINLEY: I refer to abundance generally.

The CHAIRMAN: A little louder, please.

Mr. KINLEY: In respect to abundance generally; we speak about the rationing of meats; we speak about the rationing of this, that and the other thing—that we cannot get another suit of clothes; and we speak about wages and the like; and those things are after all the troubles of abundance.

Mr. BLACKMORE: Abundance of production.

Mr. KINLEY: Abundance of every kind. We are in a war, we are still in a period of relative abundance.

Mr. BLACKMORE: You mean, goods.

Mr. KINLEY: Almost anything, except we are short of a little gasoline.

Mr. BLACKMORE: And that is an abundance of goods.

Mr. KINLEY: I want to say in reference to this price ceiling that the amount of money we are going to have in circulation when the war is over will be a problem. I believe the government played their part during this war. During the last war people in industry were making as much money as they could possibly acquire from their own efforts and they got it all except a small bit for income tax and what is left to pay their war tax. After the last war, we found that money was in the hands of a few and it was very easy for the banks and other people to control deflation and take it out of circulation. When it was not in circulation there was no danger to the price ceiling. But to-day with this money in the hands of everybody, when this money which is being saved and accumulated gets into circulation you will not have power to save the price ceiling, you will not have power to stop circulation such as you had in the olden days. I am not going to say to-day that that is a detriment to this country,

but just the same you will not have the power; and when this war is over and when that money gets into circulation, and you must have money in circulation here, it is just like water that is needed to float a ship, you must have money sufficient enough to float business.

Mr. FRASER: Hear, hear.

Mr. KINLEY: When potatoes are 50 cents you do not require as much money to move them as when they are a dollar a bushel; and with the business of this country being built up the way it is to-day you need much more money to keep it afloat, to keep your financial ship afloat than when it is down. When the war is over and everybody has money a lot of these people are going to have money to lend and it will probably be freely available for loan to enterprises of all kinds. I do not think there is any question about that. It seems to me that you will be up against a peculiar situation because in my humble opinion unless it is controlled money will be the cheapest in this country that it has ever been and it will be difficult indeed to prevent inflation unless it finds its way into private industry and private lending.

Mr. JACKMAN: Would you suggest that more of that money find its way into business investment?

Mr. KINLEY: Well, as far as it goes down my way, everybody who has money to lend is glad enough to make it available to his neighbour. I have always thought that the best investment I could have was a mortgage on the property in my own community. In our industry if one of our workmen comes to me and wants to do something about building a house, I just say to him: yes, you can have all the money to which you are legitimately entitled for the purpose of building a house, at 5 per cent. We have loans for many young reliable workmen in our plant. They can get a loan at any time to build a house at 5 per cent. I have a little difficulty now. I have a man who wants to build a house. He is not a citizen of Canada. I do not know what his obligations are to his nation and I do not know what his economic obligations are and I delayed lending that man money to build a home until I found out just where we stood. I am just mentioning that to show the extent to which we have gone. We have been lending money to our men to build up their homes. If they can build a home, or if they can buy a home that is available, we give them the money. We are not doing the man any favour. We think we are getting the best investment possible for our company, because we think we are making that man a part of our institution where he can be of more value. All industry throughout this country is doing that to a large extent to-day and if they are wise they will do it. With the abundance of money that there will be, I am not so sure of the need for big loans. Take shipping, for instance. Would you for a minute say that when this war is over we should build more ships? There will be congestion so far as the amount of shipping is concerned. When the last war was over they would almost have given them away if you would let them tie up to your dock. The Norwegians, who were the most astute people in shipbuilding, immediately cancelled their building program when the last war was over. While the Norwegians were not our allies in the last war, they did a great deal of the carrying trade of the world during the last war for the allies, and they lost a great deal of their shipping. Shipping went down after the war and they stopped their building program, wisely. You will find there are a lot of things we are doing to-day at extreme speed and under pressure that we will have to abandon, because we must be disillusioned; because we are to-day in a war-time economy and we are spending money for purposes that, although they are essential and vital now we would never be allowed to spend money on in peace time. War is waste, but we are willing to waste money to win the war.

Mr. GRAHAM: Do you not think the management will see that?

Mr. KINLEY: Everything depends on good management, I will admit; and I think that this will probably be pretty well managed, if the governor has the say and if these directors from some other parts of the country do not overwhelm him with their advice as to how this money should be spent, I am just a little bit concerned; as I said on second reading, I have my doubts about the interlocking directorate. I do not know whether we are not travelling towards a financial dynasty in this country. I think that if it was separate and apart from the Bank of Canada it might be better, because the bank has judicial powers over the other banks of this country, and you cannot be the umpire and play the game at the same time.

Mr. JACKMAN: Hear, hear!

Mr. KINLEY: It is not fair.

Mr. BLACKMORE: Would the honourable member permit a question?

Mr. KINLEY: Yes.

Mr. BLACKMORE: I just wanted to get harmonized what seemed to be two inconsistent arguments that he has made. He said a few minutes ago our chief trouble was abundance of goods, and then he seems to fear—

Mr. KINLEY: No, I did not say that.

Mr. BLACKMORE: I understood you to say that.

Mr. KINLEY: I do not think we have any economic troubles at all. I said our troubles, whether imaginary or real, are troubles of abundance.

Mr. BLACKMORE: Of goods?

Mr. KINLEY: Of money and everything else.

Mr. BLACKMORE: Of goods?

Mr. KINLEY: As far as goods are concerned, we need an abundance of goods. We have got to have an abundance of everything and therefore our troubles. The thing is as to the way I want it. A man will come and say to you, "I cannot get gasoline to drive my car so far," and that kind of thing. In peace time he did not have the money to drive the car that far. He has more money. Now he is in trouble because he cannot get the conveniences to suit him.

Mr. BLACKMORE: The point I was making with regard to the honourable member's speech is this. If our troubles now, even in war time, are largely an abundance of goods, surely the distribution of additional amounts of money afterwards ought to cancel that difficulty out.

Mr. KINLEY: I do not think we have an abundance of goods at the moment. I think we are trying to get an abundance of goods.

Now, Mr. Chairman, I do not think we should have legislation for the few; that is according to the gospel preached by the two experts, and two splendid experts they are. Centralization has been the trouble in Canada. Industry has been centralized in certain parts of the country. My vision of this bill is a bill to decentralize, if possible, and to help the fellow in the little place, to give him a chance and to bring to him some of the aid that he should have in order to get started or to establish himself. But when a man gets into the realm of \$200,000, \$300,000, \$400,000 or \$500,000 with regard to money, when he is entitled to that much money, when he is worth \$500,000—if he is not worth \$500,000 he cannot borrow \$500,000—do you not think he should be in the realm where he should stand on his own feet and that he should not ask for government aid in order to further accelerate his actions to try to monopolize the business of this country?

Mr. SLAGHT: Would you suggest a limit?

Mr. KINLEY: I think the limit is \$50,000. Then suppose a man has \$50,000 of his own money. I think there is a rule that a business man's assets should

be three to one. I think the Governor of the Bank of Canada will say that in his experience he always looked over the statement and said if you have three to one you are in a good position, and if you have not three to one, your position is not so good. If a man could get a loan of \$50,000, under the rule of three to one he has \$150,000. So it seems to me that when you supplement that by giving him \$50,000 you would be going a long way to stimulating smaller industry in this country.

Mr. JACKMAN: May I ask you this? Would you limit the \$50,000 to co-operatives?

Mr. KINLEY: Well, I will come to that in a moment. You know that bad money will destroy good. I think that is a principle of economics, that bad currency will destroy good currency. Bad industry will destroy good industry. The uneconomic will destroy the economic. Wherever you, by a blood transfusion or anything else, try to bring into the bloodstream of this country something that will bring around something uneconomic, then you will destroy that which is good.

Mr. McILRAITH: A blood transfusion does good. It saves lives.

Mr. KINLEY: The uneconomic will destroy the economic. I think that is also a law of finance. I agree that a blood transfusion is a good thing for a sick man, but it is not a very good thing for a well man. Today we are asking well men in Canada to give blood transfusions to help the sick men over in Europe and elsewhere.

Mr. McILRAITH: Has that not been a great thing?

Mr. KINLEY: A splendid thing. I am willing for the sick man and the weak man to be helped, but I am not willing to help the fellow who wants half a million dollars from the government of this country to make himself rich. I am for the little fellow who is struggling along and trying to do something for this country. But when a man gets to the stage where he is entitled to \$500,000 of the people's money to invest in industry, I think that man should stand on his own feet, and I think he can. I think the lending institutions of this country are equipped to give him all the money he needs if he is in a position to make it secure. The point is that you say, "yes, but we are going to go into the realm of insecurity and expect losses." I know you are going into the realm of insecurity and I know you expect to make losses. I am willing to go into the realm of insecurity for the purpose of experimentation, for the purpose of assisting the weak, for the purpose of balancing the industry of Canada, but I am not willing to go into insecurity for the purpose of making the rich richer. As far as the maritimes are concerned the trouble down there is that as soon as an industry gets where it is successful, as soon as it gets to the place where it has virtue—and we have many examples—money powers of upper Canada come down there, buy it out, water it and sell it to the public. That has been a detriment to the maritime provinces for many years.

Mr. BLACKMORE: Hear, hear.

Mr. KINLEY: That is what they do. They move it out of there, and they do not only move it out of there but they water it. I went through that. I have been many years in public life in this country. I saw it with regard to the coal and steel companies of this country. I saw it with regard to industries in the city of Halifax, and saw it with regard to nearly every maritime industry that had any special virtue. The money powers of Canada came down and bought it out, moved it up there and left Nova Scotia stranded. The products of their principal industries were brought here and they were left there to eke out an existence.

Mr. McILRAITH: Is not the purpose of the bill to prevent that?

Mr. KINLEY: I want to make it go. If we put something into the bill so that it will be designed to help the man who is struggling, to help the man

who needs help, I am for the bill. I think that was the intention, and that was the footstool on which it was placed when the two experts came here at the start. I want to keep it there if I can in the interests of the people down by the sea.

Hon. Mr. ILSLEY: Just let me ask you a question. Many of these industries which were closed up in the maritime provinces were not \$50,000 industries. They were not as small industries as that. They were industries of a considerably larger nature. If you put your \$50,000 limit on you are not going to save the situation for the kind of industries that were put out of business and moved from the maritime provinces.

Mr. KINLEY: You regard this as only supplementary legislation, do you not? You do not regard this as something that is going to put a man into business and keep him there?

Mr. SLAGHT: Why, yes.

Mr. KINLEY: If it is only supplementary legislation then we will help the man who has virtue and help the man who is willing to help himself.

Mr. SLAGHT: You are going to help the trustee in bankruptcy to carry on in competition with the fellows who are sound.

Hon. Mr. ILSLEY: He may have virtue if he needs more than \$50,000.

Mr. KINLEY: I quite agree with that. But a little private virtue also.

Hon. Mr. ILSLEY: With regard to this bankruptcy matter I will have a few words to say about that. I drove through a place in New Hampshire two or three weeks ago, a town which, if I am correctly informed, was saved by the R.F.C. when the industry itself was in liquidation, and the loan made was a perfectly safe and satisfactory loan.

Mr. SLAGHT: What was the matter with the banks there?

Hon. Mr. ILSLEY: I presume that the banks did not wish to go into this length of term of credit. The thing I do not understand is that this need is admitted by the League of Nations; it is admitted by governments which know just as much as this government does, or as the members of this committee know. They are not so timorous as we are sitting around here shivering. They have adopted these schemes to the great benefit of the industries of their countries. I must say if we take this attitude—and I do not say yours, Mr. Kinley, but the attitude of which there is some evidence here—we are going to have a terrible problem to prevent unemployment. We are going to need and must have in the post-war period the very maximum of private investment that we can get, and we must have it if we are going to have full employment in this country. The figures which have been given here as to the extent of private investment which will be needed, not public investment but private investment because it has got to be either private or public investment that takes place—

Mr. JACKMAN: And the two do not mix.

Hon. Mr. ILSLEY: Just one minute; the two do mix in country after country. Unless we are going to have some institution of this kind governments in the post-war period are going to be hamstrung in their fight against unemployment. They have got to resort to heavy public investment. The friends of private enterprise are going to find themselves in a far worse position than if they enable private enterprise to be given a chance by an institution such as this.

Mr. SLAGHT: Is that why we allow the chartered banks to lend practically \$3 to the Dominion of Canada to every \$1 that they lend to the public, and lock it up?

Hon. Mr. ILSLEY: There is no discouragement to the banks to lend to private industry, none whatsoever.

Mr. SLAGHT: They will not do it as long as they can buy your bonds and be safe. Why will they bother running the risk?

Hon. Mr. ILSLEY: Because it is much more profitable, and the reason they are not lending heavily to private industry now is because the public is the one that is spending the money to-day. That is the reason, and no other reason at all. We have had clear evidence that it is far more profitable to lend to private industry than it is to the government, but we are in a government expenditure period now. If we want to keep in a government expenditure era do not supply facilities like this, but if we want to get into a private investment and private expenditure era, and in so far as we can assist to cut down our budgetary deficits and eliminate our budgetary deficits, if possible—and we can do it if we get into an adequate degree of private investment—we have got to supply all facilities which will enable private investment to take place. To my mind anything else is a most short-sighted viewpoint. We can make argument about why lend to bankrupts, why lend to liquidators and receivers? In the United States they have made that type of loan, and it has turned out to be a sound loan, put communities on their feet, set men to work in the woods, revitalized whole districts.

Mr. JACKMAN: Would the minister say that this industry he saw in New Hampshire was successful largely because of the war?

Hon. Mr. ILSLEY: It was successful. I have not heard any criticism of the R.F.C. for making a loan to that industry. Is the hon. gentleman prepared to say that the R.F.C. operations have been harmful to the United States? Is he prepared to say that? If the hon. gentleman takes the position that he is going to hamstring private investment, which is really what it will be if we deny to the private industry of this country the assistance of an institution like that, if he is going to take that position it will just simply bring in socialism.

The CHAIRMAN: May I suggest that Mr. Kinley be allowed to finish his argument.

Mr. KINLEY: Mr. Chairman, my philosophy is that a man as far as possible should stand on his own feet. If he needs government aid it should be to the needy, but when you get up around the half a million dollar mark you are not needy. Shall we put the resources of the country behind the rich to get richer? I am not in favour of it. In complimenting the Minister of Finance and his advisers I want to pay a tribute to the United States and what they are doing with regard to finance. I think they have had their troubles; they have had their Gethsemanes down there with regard to finance.

Mr. SLAGHT: He did not tell us why the banks there did not lend it. The minister stated as a fact it was a perfectly sound loan and therefore the government loaned the taxpayers' money, but the minister has not told us, being a perfectly sound loan, what was the grip that locked up the private bankers down there? Why did they not lend the money?

Hon. Mr. ILSLEY: I do not know all the facts in connection with it. I do not know everything, but this loan proved to be a perfect loan.

The CHAIRMAN: I would suggest that Mr. Kinley be allowed to conclude.

Hon. Mr. ILSLEY: I suppose the banks are scared to death the way they are in this country.

Mr. KINLEY: This matter of the banks reminds me of a story of a maid. A banker in New York had a maid. His wife was house-cleaning and they discovered she had \$100 in a mattress. The mattress went to the cleaners and she came down in consternation and said that the \$100 had gone to the cleaners. The husband said, "That is bad; you had better go right down and see if you cannot get the mattress." They recovered the \$100 from the mattress. He brought it back and he said, "Young lady, it is time you learned a lesson. I will take this money down to the bank and put it in the bank for you and I will bring you a book. Then your money will be safe." So she said, "All

right." In a couple of months they had the bank failures in the United States banks. He came home and said, "Well, I am ruined, but I am only sorry about that little \$100 which the maid gave me to put in the bank." His wife said, "You have got to tell her. I suppose she will feel badly." So he told her. She said, "Do not worry. I did not trust that bank. I went down the next day and got that money and put it in the mattress. I will lend it to you if you want to use it." So you see we are not always right in these things. It seems to me that in so far as the American financial system is concerned Canada has been pretty good. I am saying that in favour of the minister and his advisers. I say as a compliment to them, that I think Canada has been perhaps a kind of beacon light in the world in regard to wartime finance; and I think we should be very careful before we adopt a policy of perhaps the United States or some other countries who have not done so well.

Now, Mr. Chairman, I was not going to say anything about this but my delightful friend here has been talking about cooperatives. I am all for them. I believe in cooperation. I believe that men cooperate in order that they can have complete independence, like a bundle of sticks which when tied together cannot be broken; and I believe they should be able to get along but I am a bit disturbed, Mr. Chairman, about legislation in this country and I have in my hand here a reference to the statutes of 1927, chapter 97, section 4, paragraph "g"—this is, "an act to authorize the levying of a war tax on certain incomes"; it reads as follows:—

The income of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof, and of life insurance companies except such amount as is credited to shareholders' account;

Now those are the exemptions on deductions that are in the Wartime Income Tax Act. This was the original of 1927. I think it is fair. I think it is good, I agree with it because it says, "the income of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof, and of life insurance companies except such amount as is credited to shareholders' account;" are free of income tax. But, pressure of honourable members from the west, I suppose in the interests of their constituencies, when Hon. Mr. Dunning was Finance Minister amended this statute in 1930 which is chapter 24 of "An Act to amend the Income War Tax Act", section 2 of which reads as follows:—

Section four of the said Act is amended by adding thereto the following paragraphs:—

The CHAIRMAN: A little slower, please; so the reporter can get it.

Mr. KINLEY:

(p) The income of farmers', dairymen's, livestockmen's, fruit growers', poultrymen's, fishermen's and other like co-operative companies and associations, whether with or without share capital, organized and operated on a co-operative basis, which organizations

Mr. FRASER: Mr. Kinley, you are going faster now.

Mr. KINLEY: Oh, he can get it from me afterwards.

The CHAIRMAN: We want to hear it too.

Mr. JACKMAN: Yes, we would like to hear it ourselves

Mr. KINLEY:

(a) market the products of the members or shareholders of such co-operative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity or quality, less necessary expenses and reserves;

Mr. FRASER: And now you are going faster than ever; neither can the reporter get it nor can we follow you.

Mr. KINLEY:

(b) purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves. Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.

This exemption shall extend to companies and associations owned and controlled by such co-operative companies and associations and organized for the purpose of financing their operations.

(q) The income of any banking institution organized under co-operative provincial legislation which derives its revenues from loans made primarily to members residing within the territorial limits within the province to which the institution is restricted for the carrying on of its business.

Now, Mr. Chairman, this country cannot live half slave and half free. Everybody must equitably bear the burden of taxation throughout this country or some of us are slaves to the others.

Some Hon. MEMBERS: Hear, hear!

Mr. KINLEY: It seems to me that when we amended that legislation to allow—let me go back. I think the first legislation was all right.

Mr. BLACKMORE: Which?

Mr. KINLEY: The first paragraph of the first legislation was all right, where it allowed co-operatives to carry on and be free of taxes. But when they were allowed to build up reserves and to build up other things—and they built up enormous reserves in this country, Mr. Chairman—

Mr. FRASER (*Northumberland*): And they are hidden reserves, too.

Mr. KINLEY: And then you say that these people shall not pay taxation in this country. Is that not an invitation to everybody in this country to go out into a kind of industry where they get free of taxation? We in the maritimes think we have some stability, although we are not big. We think we have some stability with regard to our industries. We hope, by some independence with regard to our endeavour, that we can keep our feet on the ground, our heads clear, our hearts pure in our endeavours to look after our own selves in this country of Canada. But legislation of this kind, when it interferes with the tax collection and the revenues of this country, is not in the general interests of this country; it is bad and will destroy the good. That is always the feature; the bad destroys the good. I do not think we should destroy the good by the inculcation of things that will destroy the foundations built up over the generations. I think that man still lives by the sweat of his brow. He must meet his obligations to the state, and if he can operate in a way that is advantageous to the people of the country, for his own benefit, I believe in it and we think he should go along. But when it comes to a case of privilege that is another matter. I agree to privilege for the small man; I agree to privilege for the little co-operative. I believe in giving a chance to the little man all over the country to get his feet on the threshold and to get to a place where he can serve this country in the best possible way, and may become a decent citizen. But when a big business, running into the millions odd, comes to such a stage that they control the country in which they operate, where they want to make of it a state monopoly that is controlled

by an economy that is, after all, in the hands of a few, it seems to me that we are on a dangerous road, that we ought to take stock of where we are going. It seems to me that we should see to it that after we let them free from taxation, we do not in addition to that, as suggested by my friend, give them money from the public treasury, where we would be paying taxes to carry on their industry. I must say, Mr. Chairman, that I could not subscribe to that under any reasoning that I can think of. I do think that, so far as we can, we should have a free field and no favour. Let us help the weak; let us try to help them to a place where they become self-sustaining. But I do not think we should build up any Colossus in this country that will ultimately destroy that which is good, because in doing that we will make of our country something that we did not intend that it should be.

Mr. BLACKMORE: It is one o'clock, Mr. Chairman.

The CHAIRMAN: It is one o'clock, gentlemen. Is it the pleasure of the committee to adjourn until to-morrow morning, with Mr. Kinley having the floor?

Mr. JACKMAN: What about sitting this afternoon?

The CHAIRMAN: Not this afternoon, no. We will adjourn until 11:30 to-morrow morning.

Mr. JACKMAN: Why not sit this afternoon?

The CHAIRMAN: The Bank Act may be up this afternoon. We will adjourn until to-morrow morning at 11:30 a.m.

The committee adjourned at 1:05 p.m., to meet again on Tuesday, August 8, at 11:30 a.m.

August 8, 1944.

The Standing Committee on Banking and Commerce met this day at 11.45 o'clock, a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, at our last session the Governor of the Bank of Canada made a rather extensive quotation from a League of Nation's document, a report to the council on the work of the sixty-eighth session of the committee dealing with agricultural credit and medium term credit to industry. I thought I recalled the document but I was not quite sure. The governor quoted from the introduction of the memorandum on medium term credit to industry. I would suggest that we place on the record the conclusion of the committee.

Mr. JACKMAN: Hear, hear!

The CHAIRMAN: It is not very long.

Mr. SLAGHT: Hear, hear!

The CHAIRMAN: It does seem to modify some of the conclusions that might have been drawn from the introduction.

Mr. JACKMAN: That is not surprising, Mr. Chairman.

The CHAIRMAN: Is it the pleasure of the committee to do that?

Some Hon. MEMBERS: Carried.

Hon. Mr. ILSLEY: What about the whole memorandum going on the record, Mr. Chairman?

The CHAIRMAN: Do you want the whole memorandum placed on the record? It is twenty-one pages long.

Mr. BLACKMORE: Let us have it all.

Mr. SLAGHT: No.

The CHAIRMAN: There are twenty-one pages.

Mr. BLACKMORE: It does not all have to be read.

Hon. Mr. ILSLEY: This is being brought in for the purpose of rebutting what Mr. Towers says, and I do not think you can just pick out pieces of it in this way. I do not think you can pick out pieces on the allegation that they rebut something else.

The CHAIRMAN: May I say, in reply to the minister as to the objective, that my objective was to put on the record the conclusions of the committee that dealt with this matter inasmuch as the introduction had been put on the record.

Mr. JACKMAN: Hear, hear!

The CHAIRMAN: If it is the will of the committee to have all of the details, which consist of some twenty-one pages, as suggested by the minister, then all right.

Mr. McGEER: Of course, the League of Nations have been wrong so many times that it does not seem to me that it makes any difference as to what part you take of it.

Mr. SLAGHT: Could you give us the date of that, Mr. Chairman, and the personnel of the committee?

The CHAIRMAN: The date is 1939.

Mr. SLAGHT: Who were the personnel that made that report?

The CHAIRMAN: Well, it is by the financial committee of the League of Nations.

Mr. McGEER: Surely that is dead.

The CHAIRMAN: I think if we put the conclusion on the record, it would be sufficient.

Mr. McNEVIN: I think not, Mr. Chairman. You have had put on the introduction to a pamphlet, and now you suggest putting on the conclusions. There are many explanatory phrases and clauses within that document.

The CHAIRMAN: Yes.

Mr. McNEVIN: I think that there is plenty of printing done that is not as important as that. I would move that we put the whole of the document on the record.

Mr. SLAGHT: Before we do that, may we learn who the individuals were who composed that committee of the League of Nations in 1939? I do not desire to make any comment, but if it is to be of any value to the committee, we must know who the gentlemen were. Were they some academic students or something or who were they?

The CHAIRMAN: Their names are unknown to me. I do not know them.

Mr. SLAGHT: And I venture that they are unknown to the minister, his deputy and every other member of the committee. This unknown hero business is something with regard to which I think we should pause when it comes to spending money to print twenty-one pages.

Mr. McNEVIN: I should like to make this further observation, Mr. Chairman. I do not agree with all of the suggestions that have come from the League of Nations, but I still have quite sufficient confidence in the representatives of the nations that composed that body; if they selected a financial committee as representative of the nations that were members of the league, then I think the information would be of value to this Banking and Commerce Committee.

Some Hon. MEMBERS: Carried.

Dr. CLARK: Perhaps I might say a word about the membership of the committee. I do not remember it exactly. Perhaps the most damning thing about the membership, Mr. Slaght, is that I was a member of the committee myself in 1939. In addition, there were Sir Frederick Phillips of the British treasury; there was Jefferson Coolidge from the United States who is connected with one of the banks in Boston—the First National Bank, I believe, of Boston. He is now head of the United Fruit Company and was for a time Under-Secretary of the United States treasury. There was a Belgian banker by the name of Jansen on the committee. There were two or three central bank governors or representatives.

Mr. SLAGHT: Then I withdraw my suggestion. If the committee wants the whole thing, all right. I want Dr. Clark to know that, in my view, the fact of his being there shows there was certainly one man with real brains on the committee, although I disagree with him very, very materially in some of his conclusions and economic views.

Dr. CLARK: Thank you.

Mr. KINLEY: Mr. Chairman, when the committee adjourned—

Mr. MAYBANK: Before you start, Mr. Kinley, may I say a word?

Mr. KINLEY: Mr. Chairman, my friend spoke to me about a private bill that he wished to speak to.

The CHAIRMAN: Just a minute. Is it the desire of the committee to publish the whole of the report or just the conclusions?

Some Hon. MEMBERS: Carried.

Mr. BLACKMORE: Put it all on the record.

The CHAIRMAN: Put the whole report on the record?

Mr. BLACKMORE: Surely. Let us have it all there.

The CHAIRMAN: All right. Is it the pleasure of the committee? Please raise your hands.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: All right. That is carried.

Mr. KINLEY: The honourable member from Winnipeg spoke to me about a bill that he would like to get precedence for before the committee. I should like to assist him, but I arose for a definite purpose which I had not succeeded in completing. I will only take a short time to bring my remarks to a conclusion, but I should like to do so because I may not be able to be here on another occasion. With his concurrence, I should like to continue on clause 15 of the Bill.

The CHAIRMAN: May I suggest that Mr. Jackman has to leave to-day, and Mr. Jackman desires to follow you when you have finished your statement, Mr. Kinley.

Mr. KINLEY: I must leave to-day, Mr. Chairman.

Mr. MAYBANK: Mr. Chairman, I did not wish to try to interpose before Mr. Kinley spoke, but I wondered if he would just allow me to indicate that I should like to make a motion with reference to a private bill. Mr. Kinley has explained to you that he has to be away to-morrow, and I realize that he desires to get on the record. I think it is a continuation, really.

Mr. KINLEY: I want to finish. I do not want to leave my statement unfinished.

Mr. MAYBANK: That is what I understood. I ask the indulgence of the committee to be heard in a motion when Mr. Kinley finishes.

The CHAIRMAN: Well, may I say that Mr. Jackman also has to be away to-morrow, and we have only an hour and ten minutes.

Mr. McGEER: Well, let us get on with it.

The CHAIRMAN: Go ahead, Mr. Kinley.

Mr. KINLEY: Mr. Chairman, when the session closed the other day I was speaking on clause 15 which deals with the business and power of this bank. Our financial advisers have, I think, said to us that the reason for this legislation was that there was a gap in the abilities of the banks and the existing institutions of the country to loan the money that was necessary for the purpose of sustaining and amplifying small industry in Canada. They were more specific than that about it, I think. They said the reason was that our banking system does not lend itself to long-term loans, and it is for the purpose of encouraging long-term loans to small industry that this bill is introduced.

The CHAIRMAN: Quiet, please, gentlemen. Order, please.

Mr. KINLEY: At the first sessions they stressed the feature that it was for the purpose of assisting the needy and small industries. Mr. Chairman, this Industrial Development Bank is a new venture, and the only issue between the officials and myself, as I see it, is as to how far we should go and how we should define small industry.

The CHAIRMAN: Order, please. Order.

Mr. KINLEY: I think at the outset we should not get into the realm of big business. Why not start in a modest way? It is not like the Bank Act, which was a bill for ten years, as some of us say. This bill can be amended at any time. It is a bill that is going to try to do something for us in the days when we are going from war to peace. Therefore parliament will have opportunity to review because it will meet again within six months. Why not stick to our contention, that it is for the purpose of small industry in this country, and let the situation develop; and as it develops, let us make it bigger, if we want to. You can never make it smaller once you get into the realm of big business and get it loaning over this country. You are never going to get it smaller but you can always make it bigger. It seems to me that we should grow naturally as the situation develops. We must realize, Mr. Chairman, that there will be a lot of savings of the people. We have billions of dollars of war loans in the hands of the general public of Canada. We have billions of dollars of war loans in charge of industry in Canada. We have in this country trust companies, insurance companies and investment brokers, all of whom are interested in looking after the savings of the people in investments, as underwriters, who have been carrying on for generations. It seems to me that there will be an abundance of private capital that will want investment, and that we should not unduly interfere with the investment of private capital in this country in the immediate days to come. Besides, the banks have taken on larger responsibilities, on the suggestion of parliament. They have taken on the responsibility of lending money to fishermen and lending money to the fishing industry, and to the farmers of this country; they are taking on newer and larger responsibilities. In our intense desire to do something that we think might be good do not let us make it so big that it will destroy the things that we should hold on to which are sound. The question might be asked, how much borrowed money is any industry entitled to? How much can they use and succeed? Ordinarily not very much; in ordinary times a company which has borrowed a lot of money is in a difficult position.

I want to point out to you the unusual situation which exists at the present time. Do you realize that under our tax setup industry is going to get money

for nothing? Do you realize that borrowed money in industry to-day under our present tax system is a first charge on the expense of running an industry? Do you realize that if I put my own money in an industry I get a profit on it only as the last thing? It seems to me we are bonusing the idea of borrowed money in industry and we are discouraging the man who has money of his own from putting it in industry because he can do much better with borrowed money. It looks to me like a degree of disguised tariff for the benefit of industry in Canada, because it is a privilege, something which the country will pay for, because the money they have in their industry is an expense and it must be considered so before they pay taxes.

Then there is another feature. We have co-operative industry in this country. If the co-operative industry is small we want to help it. We want to help the average man to get along, but this co-operative industry is getting into the realm of big business. It is getting into the realm where they have millions of dollars in reserves. I showed you yesterday where the statutes of the country were amended whereby these mutual companies would get money and divided money among their people, that is, by giving them their price according to what the transaction would stand and further amended for the building up enormous reserves. They are in the realm of big business and they do not pay taxes. They probably will be ambitious and industrious about getting this money which they will use in the furtherance of these big wheat corporations.

My main purpose is to keep this in the place where it belongs, to help small industry. It is true they introduced the word "medium" in the later days when they thought they had got on with the first step, but they always have the same way of approaching these things. I have often seen reports where as between capital and labour they give all the compliments to the one side and all the concessions to the other side. Co-operative legislation was started in a small way to meet the needs of the farmer, the needs of the fisherman, the needs of the small man. Then it got rolling along, and they found they could get along without paying taxes and it got into the realm of big business to the point where it is almost a monopoly. They not only do that but they take over other companies and other companies contribute to them and they also try to get them free of taxes. Those are the conditions we must face. I do not want to give money to big industry, give government money to men who are rich to help them to get richer. I want to help legitimate small industry in this country. That is what this bill was started for and that is what it should continue to do. After the American revolution the carpet-baggers went into the south. I can see the Wallingfords and the carpet-baggers and the promoters going into some parts of that country and telling them "We will form a company and we will get money from the government. You put in some." Dragging people's money into get-rich-quick schemes, and everything of that kind. We want to prevent any such condition as that.

I believe in the decentralization of industry. The Governor of the Bank of Canada said that he believed in the same thing. He did bring up one point which must be answered. He said, "That is right, Mr. Kinley. I think decentralization would give us a better balanced economy in Canada." I say it would give the west and the east a chance for the smaller industries to build up. Government legislation would provide funds in the poorer parts of this country.

Mr. BLACKMORE: Would my hon. friend permit a question?

Mr. KINLEY: Yes.

Mr. BLACKMORE: I should like to know whether he believes that the bill as it stands at the present time will help to decentralize industry or will not?

Mr. KINLEY: It will if we do not allow it to enter the realm of big business and give government money to concerns which are now in what might be called the half million dollar class.

Mr. BLACKMORE: Has my hon. friend a suggestion as to the method of preventing it from going into big business?

Mr. KINLEY: Limit the amount of the loan—the Governor of the Bank of Canada made one suggestion. He said, "My reason for wanting to get into the realm of big business is that it will give employment." That is a suggestion. All the virtue of this country, Mr. Chairman, is not in one man. All the virtue in business is not in the existing big institutions of this country. There are other people in these industries that could break away and say, "We will decentralize; we will be able to start in a little way and we will try to build up." So it seems to me so far as labour is concerned we will have a much more healthy condition if we get them out into the rural areas, if we do not subsidize the creation of slum conditions in our cities where they live an artificial life, where when an industry closes down people are on relief because they are not resourceful to the extent that they can provide other means of support. If you decentralize industry to the rural parts of Canada where a man has a little garden, perhaps has a plot of land, where he can walk to work and does not have to take the tramways, where he can become a partner of the community, he is a man of more importance. He is a man in the community who takes part in the community to build it up. He is living a healthy life and it will help your health problem. It will help the problems you are struggling with here to keep away from these slum conditions in the cities, where you have to build houses for them and where you are always in peril that they will be out of work and you will have to send food to feed them and that sort of thing.

I am all in favour of decentralization of industry, and if we can do it by government means let us do it, but I say that the suggestion that it is for the employment of labour is not good enough to substantiate the subsidizing of big industry at the present time in this country. Big industry has plenty of money. Money will be a thing that will be abundant in the future. If we do not keep the ceiling on firmly prices will rocket and go so high that we will have inflation as we never had it before.

Mr. MAYBANK: You made a point there, and I wonder if you would revert to it. You were speaking of carpet-baggers, and so forth. I think the idea you had in mind was by reason of these moneys being there stock jobbers and such would go and sell stock and otherwise get contributions of capital into industry with the implied promise that a loan would be quite easily obtainable from the government. I thought that was the point you were making.

Mr. KINLEY: That is substantially it.

Mr. MAYBANK: Have you considered the influence there of the public utility principle across the country in taking a hand in that sort of situation?

Mr. KINLEY: What have they got to do with that?

Mr. MAYBANK: They have everything to do with prospectuses.

Mr. KINLEY: There is nothing to prevent a man putting in his prospectus that there is government legislation that will give to an industry certain money and that "we will apply for it" and "we think we will qualify for it."

Mr. MAYBANK: Oh yes, we will apply for it; but the ceiling, limit on government loans will be taken care of by public agencies, boards, would it not?

Mr. McILRAITH: There is one point, would you mind clearing it up before Mr. Maybank proceeds with his question; I understand you spoke about prices being restored, consequent inflation and so on. I understood you yesterday, talking about terms of production, to make the statement that we would have more production than we needed.

Mr. KINLEY: No, we need more production in war time.

Mr. McILRAITH: This will be peace time. What I do not understand from your argument is this; if we go ahead with this bill and these industries are operating will not that increased production and will that not in turn tend to bring down prices rather than to inflate them.

Mr. KINLEY: So far as industry is concerned, I maintain that this bill is to provide capital. I maintain that there will be plenty of capital available and if you inject more money into the financial blood stream of the country then you make money more abundant and you make it harder to keep down the price ceiling.

Mr. BLACKMORE: Where would a person be likely to go to borrow money, apart from this industrial bank?

Mr. KINLEY: That is what I think, money will be plentiful. I am not complaining about this bill. What I am complaining about is putting it into the realm of big industry and allowing to lend up to millions, or half a million dollars, to people in this country who should be able to look after themselves.

Mr. CLEAVER: What ceiling do you suggest?

Mr. McILRAITH: I want to get my point clear; this money is going to be put into industry and it will have the inevitable effect of increasing production, would not that make goods more abundant?

Mr. KINLEY: If it is going to make goods more abundant, what is the good of that; you have more goods than you have use for, inflation is what results when you have more money than you have goods.

Mr. McILRAITH: But the result of this policy will be to produce goods; you don't think that would keep prices up, do you? I don't think over production is a healthy thing to achieve.

Mr. KINLEY: Now, Mr. Chairman, I think the governor made just one argument in favour of this bill, that it will give employment. I believe in the idea of the decentralization of industry. I think we should endeavour to go forward with a balanced economy and I think the balance should be kept in the realm of small business, at the start especially; at the start with small business and grow from that. Let us adopt the principle and stick to where we said we would start from, and that is helping small industry; and it should be a supplementary service to free enterprise. And I believe if the bill is kept in that category it will fill the gap that we are told now exists, and for that reason I am going to move an amendment to section 15 which will provide that loans to individual companies shall not in the aggregate exceed \$50,000.

Mr. MAYBANK: Mr. Chairman, may I be permitted to present a motion at this stage in relation to the adjournment of this debate—I presume that would be the way to do it—it relates to bill H3 of the senate which is a private bill. I do not want to go into the merits of the bill at all. This is a private bill which has passed the senate and has been before the Banking and Commerce Committee for a considerable length of time. I do not know the date on which it came to this Banking and Commerce Committee, the bill passed the senate on the 27th of April, and in due course went through its several readings in the House of Commons and was referred to this committee. Now, what I am afraid of on this bill—as I said, I do not intend to go into the bill itself at all—beyond stating that it is an application for a charter—

Mr. JACKMAN: Mr. Chairman, I object, I understood you to tell me that I should have the floor.

Mr. MAYBANK: I will only take about two more minutes, if you will permit me.

Mr. JACKMAN: If you are going to go on and discuss the merits of your bill—

Mr. MAYBANK: I was just pointing out to the committee that I was not going to do that, that I was just going to describe the nature of the charter and that I did not intend to say anything in reference the subject matter of the bill itself, or to introduce anything of a controversial nature at this moment. If you will grant me just a moment or two in which to conclude I am sure you will be satisfied that I am not taking up the time of the committee unduly.

The CHAIRMAN: Mr. Jackman was assured that he would have the privilege of the floor when Mr. Kinley had finished.

Mr. MAYBANK: What I have to fear with reference to this bill is that, due to the circumstances of the session, it will not reach hearing at all before the Banking and Commerce Committee. There is always that danger with reference to a private bill. I had at first intended to move that this bill be granted precedence at the present sitting, breaking in on the discussion we have here this morning. Instead of doing that I would move that this debate be now adjourned and the bill H3 of the senate be proceeded with or first thing at the next sitting of this committee, according to the decision of the chairman. That is, there is an alternative motion, but it is a decisive motion inasmuch as the decision is in the hands of the chair. I rather think the chairman will determine that it should be taken up first thing tomorrow morning, or at the next sitting of this committee. I understand that we are not sitting this afternoon on account of the Bank Act being up in the house. Is that correct, Mr. Chairman?

The CHAIRMAN: Yes, I understand that bill 91 will be before the house this afternoon.

Mr. MAYBANK: For that reason we will not be sitting here.

Mr. SLAGHT: Is this to do with co-operative business?

Mr. MAYBANK: Yes.

Mr. SLAGHT: What is the nature of the business?

Mr. MAYBANK: It is a benevolent association.

Mr. BLACKMORE: Why all the discussion on it?

The CHAIRMAN: Might I just remind the committee of the work before us. We have of course adopted the principle of giving priority as far as possible to public bills; unless, of course, if the house is going to adjourn shortly we ought to dispose of this bill because it may be left high and dry, as you suggest. There is a possibility that the bill you have in mind might be so left, then we also have before us a provincial application from the province of Alberta, to consider the substance of the Bank of Alberta bill.

Mr. McNEVIN: That won't take long.

The CHAIRMAN: We have assured Mr. Jackman that he would have the floor and he has priority now. Personally, I think we should go on with this bill and if necessary we should discuss the matter later on because Mr. Jackman will not be here to-morrow, and he has been promised the privilege of the floor.

Mr. BLACKMORE: I agree with that.

Mr. MAYBANK: That is taken care of by the alternative in my motion; that this debate be adjourned now or at the next sitting of the committee for the purpose of considering bill H3 of the senate. That leaves the matter of time in your hands, Mr. Chairman.

The CHAIRMAN: You move in effect that it be given priority over the public bill now before us and over the Alberta bill?

Mr. MAYBANK: So long as there is no different meaning in your words from what I used, yes. My motion specifically was that this be made the first order of business to-morrow morning, or at the next sitting of this committee, whichever be the sooner.

Mr. CLEAVER: Make it the first order of business to-morrow morning.

Mr. MAYBANK: I do not want to go into any general discussion. Will you put my motion, please?

The motion being put, was resolved in the affirmative.

Mr. PERLEY: Just one word, before Mr. Jackman starts: I have been a most consistent attendant in this committee and you know that we were here yesterday for half an hour, we only sat for one hour; and we waited twenty minutes again this morning for a quorum. There are a lot of members whom I know want to get away, and I am one of them. I object, at this stage of our proceedings, to any member of the committee making a speech of more than five minutes. As far as I am concerned, I have heard enough from Mr. Towers to warrant my supporting this measure. I think it is good in principle, and without going into detail, why should we now have to listen to members making speeches; I suggest, Mr. Chairman, that members be limited to five minutes.

Mr. BLACKMORE: I do not think we should make such a motion now that Mr. Jackman is about to speak. Let him speak and then submit the motion.

The CHAIRMAN: I doubt, Mr. Perley, that we have the right as a committee to limit the remarks of members to five minutes.

Mr. SLAGHT: No, we have not that right.

Mr. MACDONALD (*Brantford*): We have never tried it.

The CHAIRMAN: That is closure in effect.

Mr. PERLEY: I am trying my best to be able to get away to-night.

Mr. JACKMAN: I asked a number of questions both in the house and in this committee to which I have received no answer. Apparently, to get an answer one has to make a speech about each question. The first question ties in closely with what Mr. Kinley was saying in support of his amendment, that the loans of the bank as set up should be restricted to smaller industries. As I see it, the main purpose behind this bill is not to help the owners of industry, although that is necessarily incidental to it, but the great objective is to give employment in the post-war period, and I have asked the question twice already whether or not the government is prepared to drop a certain amount of money each year if necessary in the operation of this so-called Industrial Development Bank. I dislike the use of the word "bank" in connection with it, I might mention. I want to ask if the government is prepared to drop money, particularly through that transition period after victory is achieved. Because it might very well be that if we can create a large amount of employment which would not otherwise be created through this instrument then it may be a very advantageous expenditure on the part of the government.

I will proceed to my next question, but I think, Mr. Chairman, that the deputy minister should give us a positive answer with regard to this matter and should make the answer as definite as possible, as to the extent of the amount of money which the government would be willing to lose in, let us say, the first post-war year by the creation of employment through the instrumentality of this so-called bank.

Mr. CLEAVER: I understood that full cognizance had been taken of the fact that some losses will be sustained and that the lending rate should be fixed at an amount that would take care of the anticipated losses. The result would be that the bank would not lose any money.

Mr. JACKMAN: I would like the deputy minister to answer my question. I have heard time and time again that the bank is not to be a losing proposition; it is to be self-supporting; but if it is to be self-supporting there is no need for the government intervening in this field. The field will be occupied by

private enterprise which is eager to make loans at the present time. So I am joining with the question which I have put to the deputy minister the point made by Mr. Maybank that we have been given an assurance that the rates of interest charged, or the rates for the guarantee which the government may give some of these companies, are at a certain figure—I believe it is 5 per cent that was mentioned—and that also has a bearing on something I should like to bring up later. I think it would be well if the deputy minister gave me an answer to that question, if he would do so, now. What is the philosophy behind this measure?

Hon. Mr. ILSLEY: It has been explained repeatedly.

Mr. JACKMAN: It will not lose money; it is not expected to lose money?

Hon. Mr. ILSLEY: It is not expected to lose money in the total, in the aggregate—in the total of its transactions. That does not mean it will not lose money on some, probably.

Mr. JACKMAN: What is the maximum rate you are likely to charge?

Hon. Mr. ILSLEY: It will vary with the risk and the conditions. There is no limitation on the interest.

Mr. JACKMAN: We are told that the risk in industry is sometimes 1 per cent, sometimes the mere service charge, and sometimes it is 10 per cent or 15 per cent. Anyone familiar with industrial securities knows how to value earnings on a certain basis; how to value the earnings of amusement companies and distillery stocks at five times or six times annual earnings, but in the case of a public utility, where there is not much risk attached, it might be fifteen or twenty times. I want to know what the bank is going to do to the private lending institutions, the syndicates, and other lending people who are desirous at the present time to advance moneys to industrial companies and other companies which will provide employment.

Hon. Mr. ILSLEY: You want to know the rate of interest which will be charged on each class of risk?

Mr. JACKMAN: What is the range? Is it going to be 5 per cent? That is the idea Mr. Cleaver has. It was suggested to us. How high will it run? Will there be participation in the equity ownership as a bonus which will supplement the return which the bank will get and which will help to offset those loans which will inevitably be bad? I do not think this has been thought out.

Mr. CLEAVER: You have had your answer.

Mr. JACKMAN: What is the range of the interest the bank is going to charge?

Mr. CLEAVER: As I understand this is to be done at cost, and what I suggest is leading you astray is that you want to control the industry, want to participate in the services and to make a profit. This bank is to be operated at cost.

Mr. JACKMAN: If you are going to operate this bank at cost you may as well bar out the whole banking fraternity.

Mr. CLEAVER: Cost includes losses.

Mr. JACKMAN: If you get a figure which shows neither profit or loss; but if this bank is going to go into industrial financing at no profit with 2 or 3 per cent government money then it is going to take over the whole field of private finance. I want to know what the range of interest payments is going to be on the money advanced by this bank to private industry; whether or not this bank is going to make a participation in the equity ownership in order to have some windfall to offset inevitable losses. I do not think that that has been explained to us at all, and I will ask the witness to answer that question—not Mr. Cleaver.

Mr. SLAGHT: I want to move an amendment to section 15.

Mr. JACKMAN: I am not finished. That is only my first question. Have we got an answer to it? I am sorry the Governor of the Bank of Canada is not here.

Dr. CLARK: Perhaps I might try to answer that question. I think, as the minister said, the rate of interest charged is going to vary with the particular conditions, the type and term of loan, the degree of risk involved, and it will depend to some degree on prevailing conditions at the time. I think Mr. Towers used the figure of, perhaps, 5 per cent as the average—I think he spoke of the average rate. That might be the range. It might run from some figure below to some figure higher than that; but in so far as wiping out the possibility of private financial institutions continuing to carry on their business, I do not think there is any such intention at all.

Mr. JACKMAN: There may not be the intention but that is the result.

Dr. CLARK: Oh, no, it should not be the result. It should make it possible in a number of cases for private investment banking firms to do business which they now cannot do, because the securities will not be taken by the public at any rate that the private bank or investment banker would feel it wise to put on a security.

Mr. SLAGHT: Does not that mean it is unsound?

Dr. CLARK: No, it does not mean it is unsound.

Mr. McGEER: There is no fixed level of rates on the Reconstruction Finance Corporation; it is open.

Dr. CLARK: No, there is not; but as I say, with regard to these industries that will be financed, there is nothing unsound about them at all. They are meant to be industries that will be sound, sound in valuable units in the economy creating employment and adding to the national wealth. If they had to pay 10 or 15 or 20 per cent for the money, perhaps they would be unsound, and so would a lot of big business be unsound on that basis.

Mr. McGEER: It all depends on the management.

Dr. CLARK: In industrial financing the management is certainly the most important factor, but you can have good management in small or medium sized business; and you can have good management in these small or medium sized businesses with a good product and a market for that product, and yet they may not be able to carry on, to get funds sufficient to provide the permanent capital that they require and you have to make possible ordinary banking loans for working capital purposes. If you look at the figures of failures, business failures, you will find that one of the most important reasons for failure is inadequacy of capital.

Mr. JACKMAN: That is right.

Dr. CLARK: Lack of capital.

Mr. JACKMAN: That does not say the idea behind it is good, though.

Dr. CLARK: No, not necessarily. But the idea in certain cases is good and the management is good and they may fail merely because of lack of capital or they may be gobbled up by the big fellow just for that reason.

Mr. FRASER (*Northumberland*): They are generally gobbled up by the big fellows by wanting to take a profit on their business and let the big fellows float that profit.

Dr. CLARK: That has happened sometimes.

Mr. FRASER (*Northumberland*): That is generally what happens. That is what struck me very forcibly yesterday when Mr. Kinley was speaking about Nova Scotia's experience. You can take everything from fishing to trapping in

Nova Scotia, and when they got a chance to take money from the big lads in Montreal and Toronto, they sold out and took their profits. That is the thing that has happened.

Mr. McGEER: They got out and got into government bonds.

Mr. JACKMAN: The whole purpose behind this, according to the preamble, or the idea is to supplement and not supplant ordinary investment and financial channels.

Dr. CLARK: That is the fundamental idea.

Mr. JACKMAN: What is going to happen if a man has an idea, and perhaps has an old plant already and needs extra money for machinery and working capital? If he feels he can go into this bank here and get money for 5 per cent—although 5 per cent does seem like a good rate in some industries, it is not much considering the risk, because to average 5 per cent you have to charge a higher rate. You have to go a good deal higher than 5 per cent. Is he going to consult with the ordinary channels of investment if he thinks he can go to this bank? He is going to overlook them. The result is going to be that the ordinary channels will say in time, "There is no use in our looking at this business at all, because they will go down to Ottawa or wherever the office of this bank is, and get their money cheaper." You are going to put the government right into the financial business, and you are going to oust ordinary people. That will be the tendency, whether you have sound management or good pure conception and pure execution of that conception. Things may be different. You may not always have the same sound hands guiding this institution. So that I feel it is getting into a very dangerous field.

Mr. McILRAITH: Right on that point, Mr. Jackman, may I ask you this? If they could get this money from this Industrial Development Bank, would that not tend to make the private sources of lending very keen to get into the market and make them more willing to lend?

Mr. FRASER (*Northumberland*): Not as willing to lose their money, though.

Mr. JACKMAN: Private sources are very anxious to get into this. As a matter of fact—and I have no hesitation in being personal about this thing at all—I have been looking, for a number of years, for small industrial companies, either where old people are passing out and they want some new capital in the business to fix up the estate or to pay succession duties, where there is good management—I do not provide that; I have to be assured of that fact—or a company of young men where they want additional capital to expand. I cannot find a good one.

Mr. FRASER (*Northumberland*): Come up and see me some time.

Mr. JACKMAN: All right; I will. I have talked to general managers of banks and asked them if they knew of such companies. They said, "Sorry, I do not know of anything at the present time." I have three or four on the list waiting for such a thing. They are just not available. If there is a return to compete with the return which you could get from other securities plus 1 per cent—it means nothing in the price of the product of the business—and the money will flow into that channel rather than into the 5 per cent rate you might get on preferred stock. There is so much running around—

Mr. CLEAVER: You are familiar with this type of investor. Does he want control of the companies? Does he insist on control before he will put up capital?

Mr. JACKMAN: He does not insist on control. He wants honesty of management and ability, that is all. If you buy securities, you do not get control of the company.

Mr. CLEAVER: Does he not insist on stock control?

Mr. JACKMAN: No, he does not insist on control. If he does not trust the people he probably will not go into it. But if he finds out there is a good chance there but that the people's character is not quite good, he perhaps wants a controlling hand to make sure they do not dissipate the funds.

Mr. McGEER: If he could find a nice little developed gold mine that somebody had forgotten about, that would be a good idea.

Mr. JACKMAN: I do not know. Gold mining is not my field. Mr. Slaght could tell you more about that than I could. What I am saying about that is that we have presented to us here the figures of current deposits in the banks and time deposits. We have found out from the bankers that they are pressing to get their money out on current loans, and in the same way borrowers are not available; but I think if you draw on your general knowledge or experience or will take my word for it, there is the same pressure on the part of those who are classified as entrepreneurs in industry who undertake these risks, people who can afford to lose money because it will not result in human suffering; and they cannot find industrial opportunities at the present time.

Dr. CLARK: May I ask a question? In the case of the bank, in the type of case you are thinking of there, would you, if you were in the bank's position, take a long-term loan without a mortgage security in the case of an industrial plant?

Mr. JACKMAN: A commercial bank or the I. D. B.?

Dr. CLARK: No. I am speaking of the commercial banker, because I thought you were saying that the banks had lots of money and were willing to lend.

Mr. JACKMAN: The banks have lots of money owned by people, many of whom are entrepreneurs and just looking for a chance to do something along these lines. I know any number of people in my own city who would be delighted to come into this type of security.

Dr. CLARK: I can send you a lot of business if the history of the past repeats itself, because I have tried to get money of this kind for a good many firms in the last eleven years.

Mr. JACKMAN: Perhaps your judgment does not agree with that of people in industry.

Dr. CLARK: In several cases it has agreed with the judgment of very big companies and the heads of those very big companies; but it has involved, in each case where a deal was made, a controlling interest in the stock for a bit of money going in.

Mr. CLEAVER: That is my experience, too. They always require that.

The CHAIRMAN: Order, please. Mr. Jackman, Mr. Ryan has a question.

Mr. RYAN: Mr. Jackman, do you not think that this bank, when organized and operating, would be of assistance to men like yourself in a business such as you operate?

Mr. JACKMAN: No.

Mr. RYAN: With the information you might get?

Mr. JACKMAN: No.

Mr. RYAN: In regard to the companies that would like to get capital?

Mr. JACKMAN: No. I do not want to deal with the government at all. I want to be left to myself and so do other people.

Mr. RYAN: If you do not want to take advice from anybody, all right.

Mr. JACKMAN: Yes, I do. As a matter of fact, I am quite willing. As I say, I investigated this type of institution before because I felt there might be

a need for it. I am sure if there had been considered an economic need for it it would have been set up. If there was a vacuum there and it would yield a return, and it was a profitable field for the employment of capital, it would have been set up; but it never eventuated.

Mr. SLAGHT: The vacuum is for bad loans. That is what is troubling me.

Mr. JACKMAN: That is right. The vacuum is for bad loans. May I deal for a moment with this business of control. Who should really control the company anyway? Certainly the person who puts in the majority of the money or takes the eventual risk. That is the person under our system who controls it.

Dr. CLARK: Not the man who has built up the business, who may have put more money than is now being asked for on a loan? If the man now coming in takes a debenture or mortgage bond and gets 6 per cent interest on it—

Mr. JACKMAN: That is not what I said. What I said was the person who puts in the greatest amount or the greater amount of equity capital is, under our system, the one who controls it. That is under the democratic system. He has more votes. He has one vote per share. And if he takes a bond on it he has nothing to do about the running of the industry until the bonds are in default or there is a passing of interest or something of that kind.

Dr. CLARK: The cases that have come to my experience and that have been settled after very considerable negotiation, have been cases where one or two individuals built up the firm to a certain size and they needed more permanent capital. Usually to justify bank loans for working capital purposes. The bank was getting worried about the fact that these permanent capital loans were not for working capital but for permanent capital. In those cases, in the particular cases I have in mind, the individual had been sent to one or two large companies or to the heads of one or two of the large companies, and he has finally got a deal; and the individual in question, the buyer, the man who puts in this extra two or three hundred thousand dollars, has taken a mortgage bond issue paying 6 per cent interest and 50 or more per cent of the stock; not always 50 per cent, but very frequently. There is a case where you had worked perhaps for generations in building up this business, admirable work, efficient work, with a lot of capital—

Mr. JACKMAN: I find it a little difficult to subscribe to such a statement.

Mr. KINLEY: Do you assume that type of admirable man could not get money?

Dr. CLARK: I have sent them, Mr. Kinley, to banks in the first place. I have personally myself tried to get banks to take over the loans. I have sent them to insurance companies in some cases and I have sent them to investment bankers. I have said, "You go and see." They have come back, and for one reason or another the bank would say, "That is not the kind of loan we could make."

Mr. SLAGHT: Does that not necessarily mean that it is rotten security, because in all these institutions their life blood, their experience for forty years, their business for their shareholders, is to lend that money unless it is a bad loan?

Dr. CLARK: No, Mr. Slaght. That kind of loan I am speaking of should only be taken with mortgage security behind it. The bank cannot take a mortgage security.

Mr. SLAGHT: Not the chartered banks, but there are the investment trusts and loan companies.

Dr. CLARK: I think the fact they are not bad loans is proved by the fact that some of these individuals are very anxious to take them over, to put up the money.

Mr. FRASER (*Northumberland*): You should stick to government finance, Dr. Clark.

Dr. CLARK: I have had a lot of experience.

The CHAIRMAN: I would suggest we allow Mr. Jackman to continue.

Mr. JACKMAN: Let us take Dr. Clark's example of a typical case which has come to him. Here is a family company, a little industry which can do more business and create more employment if it has more money. It finally goes to one of these people who are presently in the business of advancing capital and can only get money if it gives a bond mortgage on its property and also a controlling interest in the company, but Dr. Clark said the purpose of these small industrialists in coming to him in the first place and going to the banker eventually was to get more working capital.

Dr. CLARK: No, I did not. I said it was to get more capital to justify the bank in providing adequate working capital.

Mr. JACKMAN: That is what you said.

Dr. CLARK: Permanent capital, not working capital.

Mr. CLEAVER: Permanent capital for effective expansion.

Mr. JACKMAN: What he said is quite correct. I did not give it quite correctly because I had not finished my statement.

Mr. MAYBANK: You just jumped one step.

The CHAIRMAN: Let us allow Mr. Jackman to conclude.

Mr. JACKMAN: If a man has a small industry he may want more money for fixed capital to put into plant and machinery, and in addition he needs more working capital. Finally the banker says to him, "I will give you the money but you must give me a bond mortgage." If he gives a bond mortgage on the property he certainly destroys that company's ability to go to the bank and get working capital because while the bank may or may not take a mortgage it certainly looks at the company's balance sheet and says, "Why, you have got a mortgage; if you go bad somebody has got a prior claim." There will be a clause in that mortgage allowing the mortgage holder to seize whatever working capital is not pledged under section 88 of the Bank Act.

Dr. CLARK: There is section 88 security the bank would take and maybe have perfectly sound security.

Mr. JACKMAN: After the small industrialist gets money from the banker then he goes to the bank and borrows more money, jeopardizing the position of the man who loaned the money. When I say jeopardizing I mean merely relegating it to a second or third claim.

Dr. CLARK: But making the whole investment productive.

Mr. JACKMAN: It is a new enterprise, and if there is one type of investment which I do not like it is a new enterprise. Somebody else can have them because they are so risky. Let us take the Steep Rock Mine; take the Detroit International Bridge; take the Detroit Tunnel. Take Lake Sulphite since the war. Take any of those large companies which have started in that way. There is a tremendous amount of danger in those companies. Five per cent is of no use at all. It must promise more than that if they are to get anywhere in order to get 5 per cent on the average.

Mr. SLAGHT: That is the place where we are to put the taxpayers' money.

Dr. CLARK: Take Steep Rock. What did they have to do?

Mr. JACKMAN: It was a tremendous undertaking. They got some help from the government because it was a war job. I hope it will turn out all right.

Dr. CLARK: They did not get any help from the government.

Mr. JACKMAN: We have taken Steep Rock. Take the Detroit Tunnel and the Detroit International Bridge on my side, one and two, and Lake Sulphite

being number three. You will find there are so many casualties in this type of business. I will not say 50 or 60 per cent but it is a very high type of casualty and very dangerous. Let me proceed to another point.

Hon. Mr. ILSLEY: I think Dr. Clark is prepared to deal with those cases.

Mr. McNEVIN: Apparently there is an indication in that presentation that the institutions about which the speaker has been making his representations largely have not been willing to finance these various projects.

Dr. CLARK: The Detroit International Bridge was financed.

Mr. JACKMAN: Mr. McNEVIN has brought out the point that apparently the institutions were not willing to finance the enterprises. The trouble is there is too much capital. All these companies were financed, and the ideas were not sound. On the Detroit picture you have the report of one of the largest engineering firms, that the project was perfectly sound and was almost in the nature of a utility. The tunnel comes along and there was competition. Then you get a supplementary report from the same firm, "O.K., go ahead." You can raise more money on that, but these things do not always pan out. There has been an abundance of capital.

Mr. McNEVIN: What about Steep Rock?

Mr. JACKMAN: It has proven all right so far. We hope it will in the future but it may or may not. One does not know, but Mr. Kinley mentioned yesterday a paper company down his way. There we have our largest manufacturing industry. What is its history? Suffered from over-capacity all during the 1930s. Even before the depression it was in trouble all because of excess capacity. Again you had a place where government interference came in. The provincial government owned the forests and they wanted to get an industry started in their province. Enterprising business men decided if they were ever going to get any of these timber lease holds they would have to do it immediately. The provincial government said, "Yes, we will grant you a lease hold on certain terms provided you put up a mill." They wanted to give employment. They went ahead. That was a case where both private industry and government direction went askew, but what I am pointing out is we have had more capital than we can possibly use.

Mr. McNEVIN: Suppose we let Dr. Clark have a word in explanation.

The CHAIRMAN: Proceed.

Mr. MAYBANK: Mr. Jackman, there is just this question. Would you permit a question?

Mr. JACKMAN: Yes.

Mr. MAYBANK: I am wondering if the nature of the argument between you and Dr. Clark, if I may put it that way, because so often your reply is addressed to something he says, does not consist chiefly of this? He has presented a picture of such and such an industry taking it as an illustration. You are just taking another industry—

Mr. JACKMAN: I am a practical working fellow.

Mr. MAYBANK: I am suggesting you have just changed the picture a little bit which in effect amounts to shifting the terms. Is that not the general nature of the discussion at the moment? A man says, "I have seen industries, A, B, C, D," and so on, and describes them somewhat, and you are dealing with industries E, F, G, H, I, J, K, and so on which have some marks of similarity, and so forth. The question is are you meeting?

Mr. JACKMAN: You cannot make a general principle from a single deduction. A theory only holds when it meets practically all cases.

Mr. MAYBANK: I quite agree with you but I thought you were working from a different set of details.

Mr. SLAGHT: Dr. Clark is embarrassed because he cannot really disclose the people but could he go this far? We have had a lot of concrete cases. In the case of Steep Rock \$6,000,000 was brought in from the United States.

Dr. CLARK: The R.F.C. loaned them over \$5,000,000.

Mr. SLAGHT: Could you not give us a concrete case, say in the city of X, of a type of business where the banks or the investment trust people would not make the necessary advances to this X business; could you not do that without disclosing a particular case?

Dr. CLARK: I think it would be very difficult to cite a case, because most any of them would be recognized if I gave you enough information to make the situation realistic to you. I think such a case would be very obvious to people in this room. But take Steep Rock; I think Steep Rock is a case which involves the development of a natural resource of the country through the assistance which came to them from the United States. As I recall the case they got a \$5,000,000 loan; and they got a debenture issue from the Eaton firm of Cleveland; although in that case the American group did not insist as I recall on managerial control or control of the voting stock of the corporation. I think the assistance from the United States end made possible in Canada the development of a natural resource that I hope will be a successful entity in the Canadian economy. They have contracts I understand for their product on a pretty good basis.

Mr. SLAGHT: Who do they come from?

Dr. CLARK: I understand from the American steel firms.

Mr. SLAGHT: No doubt about that.

Dr. CLARK: I would have preferred to have seen that enterprise financed in Canada, and if our own Canadian investment houses could not have sold—as I think was probably true—if they could not have sold such an issue in the Canadian market during the last couple of years in securities of a Canadian enterprise like that, I would like to see some degree of co-operation between an institution like this and the investment banking fraternity which will take some of the risk out of it for the sale of securities, shares, to the Canadian public in order to have made that issue possible.

Mr. SLAGHT: Are you going to finance mining companies under this; I did not apprehend that.

Dr. CLARK: No, I am speaking of it as a factor.

Mr. SLAGHT: Either you are or you are not going to finance mining companies under the industrial bank.

Dr. CLARK: No, they can be as we all know. We have been speaking of Steep Rock and what happened in that case. I have had a number of cases, metallurgical enterprises where the amount of capital involved is quite substantial; it is not \$50,000.

Mr. SLAGHT: That is largely you mean on the processing end of it?

Dr. CLARK: Yes, the business end of it.

Mr. SLAGHT: That would come under it.

Dr. CLARK: And I think in some of these cases that would have made it possible to reap wealth from material that is now going to waste in this country.

Mr. SLAGHT: But very nearly all of it is tied up with mining as well.

Dr. CLARK: Yes, they always have to have some mining before it, but the cases I have in mind involve its exploitation and the getting out of the mineral is not important relative to the cost of the manufacturing end of it or the processing or the metallurgical end of it.

Mr. JACKMAN: I think it might be very interesting, as Dr. Clark seems to know a good deal about Steep Rock, if he would tell us the particulars of the financing, particularly amounts advanced by our federal government to aid its development.

Dr. CLARK: There has been no money advanced by this government.

Mr. JACKMAN: What about the railway sidings?

Dr. CLARK: The Canadian National Railways agreed to build certain railway sidings to help the project.

Mr. JACKMAN: I think the Ontario government also gave them a royalty on the iron ore produced, or something.

Dr. CLARK: No, no.

Mr. JACKMAN: There were two or three contracts—I cannot recall the details of them—as I understand it, most of the debentures went to the steel companies that produced the iron. I would be very much interested in having the deputy minister give us information as to how much of common stock went along with the debentures together with the agreed rate of interest. One would assume that this industrial bank would have to have an equity ownership in a big enterprise of this kind. Where we have government institutions acting as banker and entering this particular field you have no idea of what the ramifications may be; or of the influence on government policy, or the influence of politics.

Mr. BLACKMORE: Would Mr. Jackman permit a question? I am just looking for information, a humble seeker of knowledge.

Mr. JACKMAN: Yes.

Mr. BLACKMORE: Supposing it was agreed by all concerned, as it must be agreed, that Steep Rock was a significant and valuable development for Canada—

Mr. SLAGHT: It is going to be.

Mr. BLACKMORE: Suppose we agreed on that—

Mr. JACKMAN: It has not been proven to be that yet.

Mr. BLACKMORE: Suppose we take it hypothetically then, that it is a desirable development for Canada—suppose we are all agreed on that—and then suppose the banks of Canada will not finance the company and suppose—

Mr. JACKMAN: It is not the business of the banks to do that type of work, it is the function of private capital to do that.

Mr. BLACKMORE: I know, but I just want the hon. member to get Mr. Maybank's point; let us get the issue clear, let us follow through; you say the banks cannot grant finance for this enterprise—

Mr. JACKMAN: That is admitted.

Mr. BLACKMORE: Very well, and none of the other financial institutions in Canada, admitting it is sound, would finance it—

Mr. JACKMAN: They did start out by getting some government help because it was all integrated with war industry and Steep Rock has yet to prove itself.

Mr. BLACKMORE: Let us follow through from that, I want to ask one or two more questions; granting it is a sound concern—

Mr. JACKMAN: I will not grant that it is a sound concern until it is further developed.

Mr. BLACKMORE: Let me put it this way; let us say it is valuable to Canada.

Mr. JACKMAN: It has not yet shown that it is valuable; of course, that depends upon your point of view, my point of view is that it proves its value when it shows that it can make a return on the expenditure of labour and capital invested in it. Your point of view in respect to it may be something different. I am talking about commercial success.

Mr. BLACKMORE: Let us assume that it is producing a commodity which Canada needs; and this point number one, I think we are all agreed on that, that we need the commodity it produces; but it is unable to get any finance from the banks or from any other Canadian financial institutions, it is unable to sell its bonds or shares under present market conditions; where is that enterprise going to get the money with which to enable it to establish a thoroughly desirable enterprise in Canada?

Mr. JACKMAN: Just as soon as it demonstrates that it will be a profitable concern it will be able to raise money privately from private sources. I do not believe that I will have the time now to enter into it, but the main thing which will hold back big industry in the post-war development is the taxation policy of this country; because if you do not get a chance to recoup yourself, and you cannot do that when your industry pays up to 40 per cent or more of what it makes to the government, you are not going to get money into private enterprise because there is too much risk. However, I should like to refer now to the report of the Royal Commission on banking and currency in Canada, 1933—that is the MacMillan Commission report—to a paragraph in that report which relates to the growth of demand for industrial financing. I shall read from page 27 of the report, paragraph 74:—

In order to meet these growing demands for home (domestic) financing many new (investment) houses were established, and in 1916 the Bond Dealers' Association of Canada was formed with a membership of thirty-two firms, mostly operating in Montreal and Toronto. By 1919 the number was 72. In 1921 it was 103 with 17 branch office memberships. At present it is 101 with 18 branch memberships and operates under the name of the Investment Bankers' Association of Canada.

We had no industrial banking in Canada prior to the last war, with the exception of a mere handful of perhaps three or four of what are now known as investment dealers and they concerned themselves largely with the sale of government and municipal bonds. I do not suppose more than a dozen industrial issues had been handled through that type of investment house up to that time.

Mr. MAYBANK: Could you give us when some of the investment banking firms were started?

Mr. JACKMAN: There was Mr. E. R. Wood, who developed the Dominion Securities Corporation; that is probably one of the oldest—I think the incorporation was around 1901. Then there is A. E. Ames & Co., and Wood, Gundy Co., and Royal Securities Co., and others. I think it was about the turn of the century when we first thought about investment banking houses in this country. Up to 1916, as the MacMillan Commission report shows, there were some thirty-two firms; and let me tell you what happened as a result of the victory loans of the last war: they had the effect of making the people of Canada investment conscious, of making more money available. By 1919 that thirty-two had grown to seventy-two; in 1921 there were 103 with 17 branch memberships and at present there are 101 with 18 branch memberships operating under the name of the Investment Dealers' Association of Canada.

I suggest that one fair deduction of this development, with which I think all will agree, was that they grew like mushrooms; so that as a result of the last war, and the incentive of the victory loan campaigns, these investment houses grew up in this country to be of considerable size and importance. What I am suggesting is that if the Department of Finance has any confidence at all in the native ability of Canadians with the tremendous amount of money raised in this war and now represented by victory bonds, there will be such a great volume of business and of money seeking employment, that it almost staggers the

imagination how much money there will be pressing for investment; and I cannot conceive of the ordinary channels not carrying on when there is so much pressure all the time with interest rates at low levels, rediscount rates reduced from $2\frac{1}{2}$ per cent to $1\frac{1}{2}$ per cent, creating more credit if necessary, when there is all this money ready for venturesome capital if the way ahead is clear.

Mr. MAYBANK: Suppose that it is dangerous to lend government money for various reasons that have been mentioned by different speakers, suppose there is this flood of money seeking investment which you have mentioned, does that not then wipe out the other danger which you yourself prefer of government money being put into this stream? If there is a great supply of money seeking investment, can there also be a danger of the government money being less? Does not one offset the other?

Mr. JACKMAN: If the private money is available there will be no need for this industrial development bank because it is not to supplant, it is to supplement. If I had complete confidence in the wording of the bill I should be content to put up this institution.

Mr. MAYBANK: You think the government will compete.

Mr. JACKMAN: The institution would never get into operation. I say that there is no need for it, as you have borne me out.

Mr. MAYBANK: I have not borne you out.

Mr. JACKMAN: I agree with you that if this money is available from private hands there will be no need, and this bank will not get into operation. I say why set it up to begin with, because we are going to have the danger I mentioned, namely, of industrialists or small people who would otherwise go to the ordinary channels which are there waiting, often going out on the train to find out where there is a place to put money—

Mr. MAYBANK: Will you not permit me to help you to answer your own question? You say that if that be the case why set the bank up? Might not that be answered by saying that you might be wrong.

Mr. JACKMAN: There is a great likelihood, because in these things I am frequently wrong. As I said the other day, I am right only three times out of five. Let me tell you the danger of this thing. You are going to have political pressure brought to bear on this bank. If you want one outstanding example, take a look at your co-operatives: who dares in this country refuse to give a borderline loan where there is a possibility of two or three seats at stake? You cannot do it.

Mr. McILRAITH: That is accepting a pretty low standard of public morality.

Mr. CLEAVER: Don't you agree that the successful small industrialist needs capital for factory extensions and so on and he is not willing to lose control; he wants to manage and run his own business? Don't you agree that that man will welcome a bank where he can obtain this capital without losing control of his business?

Mr. JACKMAN: If you do not think he is going to lose control you are mistaken.

Mr. CLEAVER: My experience is that where a small industry does finally, of necessity, succumb and accept capital from a capital group that very often that business becomes mismanaged—capital interference with successful management of the business by that man who built up that business caused trouble; capital insists on its own type of management, and the result is that that little business fails.

Mr. JACKMAN: All things are possible, but I do not think that that is a general rule.

Mr. CLEAVER: I have seen that happen in my own community. I have seen little businesses in my own community finally have to succumb and sell out to big business, because that is what has happened.

Mr. BLACKMORE: That happens everywhere.

Mr. JACKMAN: That can happen.

Mr. CLEAVER: I have seen it happen.

Mr. JACKMAN: I say it does happen in some cases; but where a person has been able to accumulate money to run an investment bank, where you have the confidence of your clientele and can raise the money, you have to be more often right than wrong; you cannot go around making mistakes and interfering with the management of companies or your business disappears. The fact that the man has the money is an indication that that person knows what he is about.

The CHAIRMAN: Gentlemen, it is 1 o'clock and Mr. Jackman has not finished his argument. Would another 5 minutes permit you to finish, Mr. Jackman?

Mr. JACKMAN: I think so. I was going to ask the deputy minister or the Governor of the Bank of Canada a question with regard to the Keynesian theory of the under-investment of savings, and whether this bank has anything to do with that. I think the committee should have that explained to it. There was something said by the Governor. He mentioned his experience, and I do not want to question that, he not being present; but I suggest to the members of this committee that the personnel of the Bank of Canada is made up of those who have had no practical experience with this type of banking. Their experience has been with commercial bankers whose business it is to lend money for a year, to lend money on a crop and to know whether a man is going to be able to repay his loan with a year, or to lend money on inventories for which there are orders on hand which will be processed and permit a man to pay off his loan. In this business it is quite different. You become married to the concern; you live with it ten or twenty years and run all the hazards of tariff changes, with new products coming on the market and with competitors coming in—it is quite a different field.

I should like to close with one quotation, and this is taken from the British Macmillan report which was used as a reference by the Governor of the Bank of Canada yesterday so I do not think there is any question as far as the authority for this quotation is concerned. Speaking about these institutions we have been discussing, I find the following:—

The best course might be if the leading private institutions and the big banks were to co-operate in creating one or more such concerns. We understand that the creation of the Bankers' Industrial Development Company was due originally to the belief that help in these directions might be given to industry by the City, . . .

That has reference to the financial district of London.

. . . which was not being given. We have been told, however, that the authorities of the Bank of England consider, as we do, that these are not proper permanent functions for a subsidiary of a central bank.

My own suggestion is that if such a creation as this were set up it is much more properly managed by somebody from the Department of Munitions and Supply, somebody with industrial experience. It is not, primarily, so much a financial institution as it is an institution which should be guided and managed by someone who has had an intimate knowledge of industrial risks; possibly someone who has been through the industrial mill and knows what the problems are. One does not learn about these things in an office.

Mr. McILRAITH: Are you not referring to section 5 which we dealt with the other day?

Mr. JACKMAN: I am not concerned with that, but I am giving my suggestions.

It would seem desirable, therefore, that the Bankers' Industrial Development Company should at a convenient stage be definitely separated from the Bank of England, have an independent existence, and rely upon its profit-making capacity as a private institution. It is possible that it might form a nucleus for that closer co-operation between finance and industry which we think is required.

My own belief, Mr. Chairman, is that it would be very difficult for the Governor of the Bank of Canada, who will become governor or manager of this bank, to deal with things entirely on a business basis, because there will be political pressure brought to bear. Can one imagine when the report is tabled in the house—as I suggest it must be—I have not examined the Act to see whether there is an appropriate section—but say there is a loan for John Jones; he has applied for it and got it. Mr. X also applied for a loan for his company and he did not get it. One does not know exactly what is going to happen. X may have gotten his money elsewhere. His industry may have been successful. John Jones' industry, by some fortuitous turn of events, was unsuccessful, so the governor of this bank was wrong and he worked against the interests of my constituent here in favour of some one else's constituent there. I think this bank should never be set up. I think there is no need for it whatsoever. In any case, there is no urgency to pass this bill at this session. We can easily see whether or not there are developments or whether any need arises between now and the time when the next session is called. Furthermore, I believe we should have ample time to call witnesses, not only from the investment dealers who are alleged, by inference, not to be forthcoming with money when it is required, but also to have evidence from a number of applicants who present their problems, and let us as citizens of this country and business men decide whether or not we think that is a type of risk which should be assumed by the taxpayers' money.

The CHAIRMAN: Gentlemen, we shall adjourn until to-morrow morning at 11.30 a.m.

Mr. PICARD: Mr. Chairman, we are not voting on this now?

The CHAIRMAN: No. We are adjourning until to-morrow morning at 11.30.

The committee adjourned at 1.07 p.m. to meet again on Wednesday, August 9, at 11.30 a.m.

AUGUST 9, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Gentlemen, shall we resume consideration of bill No. 7, an Act to incorporate the Industrial Development Bank? Mr. McIlraith has asked for the floor.

Mr. McILRAITH: Mr. Chairman, unfortunately I missed two days of the committee's hearings, Thursday and Friday of last week. Friday's evidence is not yet printed. I believe Thursday's is. It adds somewhat to the difficulty of making the points I desire to make this morning.

Quite frankly I was very much in favour of this bill, and I am a little at a loss to get to the real point of the opposition to it. I have been amazed at the vigour of some of the opposition to the bill, and I have tried to analyze and get right down to the point of the opposition. Of course, there is the obvious answer as to why I am unable to do so. It might be because of the way the arguments

were presented or it might be a deficiency on my part so I realize in making that remark I am leaving myself wide open for the obvious retort.

We started on the sections but now we seem to have got back to a discussion of the principle of the bill which was passed in the House, and the opposition seems to centre on that.

The CHAIRMAN: We are discussing section 15.

Mr. McILRAITH: We are supposedly discussing section 15. There is one added difficulty in discussing the sections. Hon. members arguing against the bill are not witnesses. They cannot be examined or cross-examined so that you have to let statements go and follow them as best you can without always having a chance to cross-examine.

The CHAIRMAN: Might I just suggest that statement is hardly borne out by the experience of the committee because I find that anyone who speaks is usually examined, cross-examined, and re-cross-examined.

Mr. SLAGHT: Mr. Chairman, as a member who has some difficulties and views which are opposed to the features of the bill I will be glad to submit myself here and now to cross-examination by the hon. member.

Mr. McILRAITH: I think the point I was making, Mr. Slaght, was that it makes it a little difficult in dealing with the opposition to the bill and in knowing precisely what the points of opposition were. I was prefacing that against the possibility of there appearing to be any unfairness in what I take to be opposition to the bill. I was rather trying to be fair about the thing rather than the opposite.

It comes down to this. At one point there seemed to be opposition on the ground of a supposed danger of over-production. That opens up a wide discussion. We could spend days on that. I do not want to open that up, but does it not come right down to this? Will this legislation work? What is the difficulty it is intended to meet and will it meet it? The test of all legislation after all is whether it is a practicable working proposition. I think this will meet the difficulty. I think the difficulties were admirably explained in the few remarks of the Governor of the Bank of Canada. I am sorry that Mr. Jackman is not here to-day as I for one find myself fundamentally opposed to the views that he seemed to express when he touched on the subjects of production, distribution and the creation of employment.

The bit of experience I have had with corporation business indicates to me quite clearly one or two things. One is the tremendous industrial revolution which has taken place in this country since 1939. If I may suggest it with all due deference I think some hon. members of the committee may not have fully realized how much of a revolution has taken place in the industrial field since 1939 in Canada. That has brought with it certain problems. These firms have been taxed, and properly so, at a very heavy rate of taxation to the point where they have no funds left for reconversion and reorganization to put them into production of civilian goods. What is going to happen? There are two or three things that can happen. They can go bankrupt, go out of existence in the ordinary way. They can be bought up by the wealthier firms and kept out of competition with larger firms. I do not want that to happen. I want any firm which is performing efficiently in this country, which is fulfilling a useful service, which has indicated it has qualities of management, efficiency and the technique in what it is doing, and is performing a real service to the community, to be kept in business. I am not willing to see such firms put out of business either under the Bankruptcy Act or whatever other machinery might be used, or bought and closed out by some of our extremely wealthy concerns.

I know of no way in which such firms can get help to-day. Bank loans are a short-term proposition. I am not willing that the period of the bank

loans should be lengthened. I prefer to see the commercial banks retain their liquid position. I do not want them in the long term lending business, so that they are out. They cannot lend money to the firms of which I speak.

The only other way is to go to the investment market, as Mr. Jackman so adequately pointed out yesterday when he described the investment market very fully, but the difficulty there is simply that the investment market will only finance the larger companies. Time after time I have seen firms require money, perfectly soundly operating firms, firms with all the ingredients of competence of management and adequate profits, and unable to go into the investment market because their issues are too small. The investment firms will not touch them. That is also a common difficulty as any lawyer knows who has anything to do with municipalities in the municipal bond market. If you have a good township with no bonded indebtedness and are trying to float a small debenture issue it cannot be sold, or it can only be sold with the greatest difficulty, whereas a municipality that may be in a bad financial condition, if it offers a larger bond issue can get investment dealers to handle its securities. The same difficulty arises from the arguments of Mr. Jackman yesterday, seem to be very much concerned with this legislation, because it might hurt their business. Quite frankly, I am not really worried about the matter. If it does stir them up a little bit, I for one shall be quite happy. I do not think their business will be hurt a particle, in the first place; but if it is, I am not willing to take that as a reason for opposing this legislation. Rather would I prefer to deal with the legislation from the point of view of what would be the effect of it on the community at large. This statement was used yesterday, that "the bankers were pressing to get their money out"; I take that to mean the investment bankers, not the commercial bankers. Whether or not that is so, the fact still remains that they will only touch certain types of loan and are only governed by one test, and that test is the amount of profit that a firm will produce.

Mr. CLEAVER: They want to take over control also.

Mr. McILRAITH: I know that. I have had some experience of it; and the test as to the importance of an industry in the community at large is not the test they apply. I do not quarrel with them for that. They are in the business of lending money for profit; and if they do not care to consider the larger question, that is up to them. I cannot be too critical of them. I happen not to like that point of view, but it is their business. He then went on to elaborate the difficulties in that particular business and he seemed to have a very thorough knowledge of it. He has made it perfectly clear that he wanted the financing of all the industry in this country left to himself. I take it from that that he meant the investment bankers, the investment dealers. Well, I for one, as a member, am not prepared to leave the investment bankers to themselves in this field. I am not prepared to leave them to themselves in the business, nor am I prepared to leave industry to their mercy. I do not think that we can substitute their judgment on this matter for our own responsibilities; because, as I say, we get into more or less fundamental questions.

Then, he further gave the impression that there was too much capital. His whole argument seems to be over the use of capital, capital, capital. Well, I quarrel with that, and I was not definitely sure just what he meant by capital. It is possible that he may have had an adequate explanation, but I regret that he is not here to-day to explain it if he did. The hard truth of the matter is that these industrial firms have not the capital. Taxation has been extraordinarily heavy. They are in a position where they just cannot stand any period of loss of income at all; and if they are going into production they need to be able to

be carried over a period where they will have no income, when they are converting and stepping into the proper peacetime field. However, there is one other shocking statement with which I took issue at the time: It was "the fact that a man has money indicates that he knows what he is about." I am flatly opposed to that statement in all its implications. Our industrial development in this country during the war has shown one thing above all others, and that is that it was not necessarily the man who had money who knew what he was about. Let us take the small industries throughout this country; in them we have had some competent management, some knowledge of technique on the part of the the persons conducting them. They demonstrated that where they got government assistance they were able to develop the industry to do a war job. That is one of the greatest successes of modern times, one of the outstanding facts in our recent history; it stands out in the history of the last five years and it demonstrates beyond any peradventure that it is absolutely wrong to say that because of the fact the man has money he knows what he is about. That statement is just nonsense.

Mr. SLAGHT: Somebody might have left it to him.

Mr. McILRAITH: Yes; somebody might have left it to him, or may have obtained it through a method of operating that I am not willing to accept. There are dozens of ways in which he might have got it. I think it is a terrible statement; and I think it is as untrue in the industrial field. If you want to limit the remarks to the particular type of corporation with which we are concerned to-day, it is untrue there too. There seems to be a desire to go back, to go back, to go back to pre-war conditions. Well, I do not want to go back to those pre-war conditions. I do not think we can go back to them if we did want to. I want to go ahead. I want to keep on converting to peacetime use the tremendous developments that we have had now devoted to wartime use and war production. That is my whole political outlook with respect to this bill; and I do not see any way of doing that unless we adopt this bill and have the government come in and help these industries get into peacetime production who are not able to finance through the investment dealers or the commercial banks. The only alternative to that that I know of is through a drastic amendment to our whole taxation structure; and I am quite unwilling to go to that field, because any such substitutes I have heard suggested in discussion are quite unfair. They deal with something a little different from the actual problem before us.

As I listened to my very good friend, Mr. Kinley, I was not quite sure what his position was. He appeared to be arguing against the bill throughout, and then at the end I thought he limited himself to the fact that he wanted a limitation on the amount that could be borrowed under the Act. He used some rather novel arguments in submitting his views; for example, he referred to blood transfusions for war casualties. I always understood that that was one of the finest things that we have developed in modern times, and is precisely what we want to use here, blood transfusions for war casualties. I thought his argument was just, but that he drew the wrong conclusion from it. I thought the argument itself was splendid, but his conclusion was just the reverse of what it should have been.

There is one other small point taken by Mr. Slaght last Wednesday afternoon. I started to answer him, or speak to him about it at the time, but Mr. Fraser had the floor and we were interrupted in the middle of it. He spoke about permitting this bank to loan to firms in liquidation or in bankruptcy. I do not know whether that is the point he had in mind or not; but I see no objection to that at all. To put a firm into bankruptcy to-day you only require a judgment against it for \$500. If a firm is in any difficulty in business at all, a creditor should be able to get his judgment in ten days, and to make his application to get it into bankruptcy. It is quite possible to do that. Even in the case

of thoroughly sound businesses we find temporary embarrassments to the point where they are forced into bankruptcy or liquidation. And what happens when they get into that condition? There are two or three things that can happen. They can be wound up, the assets sold, broken up and sold piecemeal; or the business can be sold as a going concern. A liquidator's sale of a business, in either way, is usually not a very happy procedure except for the purchaser of the assets. It usually results in its being bought and, in too many cases unfortunately, bought by some very substantial corporation having almost control of the particular industry, resulting in closing it up, putting it out of business and keeping it out of production. I never did like that practice. I thoroughly disapprove of it. It is based on the theory that if you do not close it up, you are going to have this horrible thing called "over-production." I do not believe in that theory about over-production at all.

The CHAIRMAN: Mr. McIlraith, do you mind my interrupting just to say that the term which ought to be used, as I think I suggested to Mr. Blackmore, is "relative over-production"—relative to other things.

Mr. McILRAITH: I am very glad to have that suggestion, Mr. Chairman. I will use the term "relative over-production". Relative over-production as used by many of our manufacturers in this country is, I am afraid, a very different thing than what I mean by relative over-production. Too often it has been a very shortsighted view when the real problem was the question of price and distribution.

Mr. BLACKMORE: Under-consumption.

Mr. McILRAITH: Yes. You expressed it a little differently, perhaps, than I would. But it was not a matter of too many washing machines in this country at all when the washing machine manufacturers were bothering me, as they have been about that product. It was nothing of the sort. It was a matter of inability to distribute them to our people.

Mr. BLACKMORE: Hear, hear!

Mr. McILRAITH: That is the point I want the committee to go along on.

The CHAIRMAN: I am going to suggest that the word "relative" is necessary, as to its bearing on the price level.

Mr. McILRAITH: Yes.

The CHAIRMAN: Because prices are a matter of relativity.

Mr. McILRAITH: Yes; and some other factors, I suggest.

The CHAIRMAN: Quite so.

Mr. BLACKMORE: And purchasing power.

Mr. SLAGHT: Mr. McIlraith, you mentioned three things that might happen after a firm goes into bankruptcy, and you outlined two of them.

Mr. McILRAITH: Yes.

Mr. SLAGHT: Of course, under neither of those two would there be any loan made. You have not told us the third. Will you tell us the third, and outline under what circumstances this bank will lend to the trustee in bankruptcy? Remember, it is not a loan to the purchaser through the trustee in bankruptcy. It is a loan to the trustee.

Mr. McILRAITH: Yes. It is a loan to the trustee.

Mr. SLAGHT: What are the circumstances under which we are going to lend to him?

Mr. McILRAITH: Yes. I am glad you brought me back to that point. Perhaps I did digress a bit. Let us assume that your industry has competent management in it, because I hope they will lend only to industries that have competent management.

Mr. SLAGHT: Do you think they would be in bankruptcy if they had that?

Mr. McILRAITH: Yes, surely; they might. It is quite conceivable under our set-up.

Mr. BLACKMORE: Yes.

Mr. McILRAITH: The reason they would be in bankruptcy is that they cannot face the period of a year or a year and a half without income that is required to get them into large scale civilian production of the product they intend to manufacture. If they have proper management, if they are in a place where labour is available and so on, and if they are making a type of product for which there appears to be a good demand, why should the loan not go to the liquidator? If it goes to the liquidator, then the liquidator can take whatever steps are required. Here is the point that may or may not be bothering you. He can either take steps to reorganize the company if that is necessary—and it may be necessary in some cases or it may not be necessary—to reorganize their capital structure; and if not just simply to have them carry on with the same management. Under certain circumstances it may be desirable that they improve or change their board of directors and their capital setup, and I see no objection to that being done if it is necessary. If that were being done, are you going to withhold the loan until it is done, and have the firm kept out of activity completely until it is completed? Or are you going to make a loan to the liquidator and have these details cleaned up in the next two or three months, which is, as you know, the period which it takes in a small business—even in a very small business—to clean up these legal and accounting difficulties.

Mr. SLAGHT: If I may put my difficulty before you, I should like to. It still exists. You have just told us that this firm will have good and efficient management.

Mr. McILRAITH: Yes.

Mr. SLAGHT: That they will have a full demand for their product.

Mr. McILRAITH: Yes.

Mr. SLAGHT: You are still visualizing them, with those two factors, as going into bankruptcy. Why do they go into bankruptcy with a full demand for their product, as you stated, and with good and efficient management? I think you have put a fanciful case that could not be; that is all I say.

Mr. McILRAITH: I am a little handicapped. There are two firms I have in mind, that I have a little knowledge of.

Mr. SLAGHT: Which ones?

Mr. McILRAITH: I do not want to put their names on the record because I have not discussed this with them.

The CHAIRMAN: Mr. McIlraith, may I interrupt you to inform the committee that bill 91 has been called in the House of Commons, and the minister and deputy minister will have to leave. I suggest that we adjourn until to-morrow at 11.30, when Mr. McIlraith will have the floor.

Mr. Ross (*St. Paul's*): Before you adjourn, Mr. Chairman, may I point out that Mr. McIlraith used a word about Mr. Jackman which I must take objection to. In making his argument, he kept on talking about Mr. Jackman as "himself". Mr. Jackman is not interested in the investment banking business. His business is entirely different. It is not himself. He was speaking for a class of people all together.

Mr. CLEAVER: Apparently you were not here when he said he was speaking for himself.

The CHAIRMAN: We will adjourn until to-morrow morning at 11.30.

The committee adjourned at 12.23 p.m. to meet again on Thursday, August 10, at 11.30 a.m.

August 10th, 1944.

The Standing Committee on Banking and Commerce met this day at 11:30 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Order, gentlemen; we have a quorum.

Mr. McILRAITH: Mr. Chairman, when the committee rose yesterday Mr. Slaght had asked me a question as to why any industrial firm would be in bankruptcy or in liquidation when we had a full demand for their product and the firm had an efficient management. I did not have an opportunity of answering that but I would be glad to do so very briefly this morning and terminate my remarks with that. It can be done very easily because of the ease with which a firm can be put into bankruptcy under our present legislation. These firms presently in war production in many instances will require a substantial period before they can convert their plant to the production of peace-time products. That conversion will produce no income whatever to the firm and may involve a quite substantial expenditure. With the heavy taxation we have had—and as I have said earlier, properly had, on these firms within the last number of years—they simply have not the reserves or the cash available in whatever form the company could have it available to provide for that period; and let us take the case I visualized when I spoke of the necessity of lending to a liquidator in certain limited circumstances. This would provide a means of saving those firms which in all respects are thoroughly efficient firms, necessary to the community, doing a good job, but which were temporarily embarrassed in their finances and which cannot get with facility means of financing; and this bill will squarely meet that class of case. As I said at the outset of my remarks, I am wholeheartedly in accord with the bill, and my only desire is for us to get along with it as quickly as we can.

The CHAIRMAN: Mr. Ryan has asked for the floor.

Mr. RYAN: Mr. Chairman, in regard to this bill I may say that I can speak with a certain amount of experience with regard to the necessity of setting up an industrial bank. For some twenty years I have lived in the city of Three Rivers where I was largely concerned with inducing new industries to locate and I can appreciate from the evidence we have heard given by them that both the Minister of Finance and the Governor of the Bank of Canada are very familiar with the situation. The arguments they use are well known to me, because I had a lot of difficulty trying to get people to invest in small industries. I have often thought during these years that it would be well if there were a corporation. I did not think of a bank at the time, but I thought it would be well if there had been a corporation that would have been organized to advance or loan money to such industries; and the reason why I asked the Governor of the Bank of Canada if he thought it would not be a good idea to have the right to name some of the directors on some of these companies was because at that time I discussed the matter fully with certain of the bankers and others, and they were in favour of the idea that the institution which advanced funds should be represented on the boards of directors at least until such time as a new company got into a sound earning position.

Now, Mr. Chairman, I want to refer to the preamble of the bill which reads as follows:

Whereas it is desirable to establish an industrial development bank to promote the economic welfare of Canada by increasing the effectiveness of monetary action through ensuring the availability of credit to industrial enterprises which may reasonably be expected to prove successful if a high level of national income and employment is maintained, by supplementing the activities of other lenders and by providing capital assistance to industry with particular consideration to the financing problems of small enterprises:

It must be the intention of the president and no doubt of this bank and its directors when they are named, in so far as possible to advance the money to small industries. I however think it would not be a good idea to limit the amount of money that should be advanced to any particular sum, rather that we should leave that to the judgment of the president and his board of directors. According to my experience it might be necessary at a given moment to advance more than \$50,000, more than \$100,000, not for a long period of time, but for a certain length of time, to permit a company to get on its feet a little bit and to arrange for the issue of securities through an investment bank.

In regard to the lending of money to a bankrupt concern, I think the idea is ridiculous; I do not think that the directors of the bank would consider the lending of money to a bankrupt concern. If you refer to section 15, clause 2, you will see that the bank has the right to lend money to a receiver, a liquidator and so on, if it is necessary; and instead of lending money to a bankrupt concern they might see fit to have the bankrupt concern, or one which might be on the eve of going into bankruptcy, placed in the hands of a receiver or liquidator if in their judgment a reorganization seemed feasible or desirable. In that way they could then consider advancing money to such a concern and thereby enable it to carry on. I think there is nothing wrong with that. According to my judgment the banks are not rushed into the lending of money. They have to take some time to study the whole thing. Each application is fully investigated by qualified men.

Now, it is difficult at the present time to state type—that question was asked and answered, and I appreciate the answer that was given. It is difficult at present to state the type of industry or to whom should be loaned. If this bank had been set up after the last war the depression might not have lasted so long or have been so serious as it was. I really believe that. Some municipalities up to say 1929 lost money by reason of financial assistance given to certain industries which were located in their community. If the Industrial Development Bank had been in operation then these losses could have been avoided. I am sure of that, because the municipalities would never have gone into the business of trying to finance these industries, they would no doubt have approached the bank and got advice from the bank. This bank, to my mind, will become an information bureau which can be useful to all communities and all municipalities.

Another thing, the Industrial Development Bank will no doubt work in close co-operation with the Reconstruction Department. There has been a Department of Reconstruction formed for we may say a greater development of industry in Canada. That is what I understand to be the purpose of that department, to get rid of war equipment and so on and so forth also. I think this bank is absolutely necessary in connection with and in conjunction with the Reconstruction Department. The creation of the Industrial Development Bank is absolutely necessary to complete the other enabling legislation voted by this session for post-war work. There will have to be close co-operation between the Bank of Canada, the chartered banks and the Industrial Development Bank. It is not necessary for me to say there will have to be; I use the words "have to be" but I know well that the Governor, who will be president of the bank will see that there is co-operation. The Industrial Development Bank will assist existing small industries to increase their volume, providing there is a demand for the goods produced. I do not think, from the experience I have had with bankers, that the president of this bank would think of advancing money to an industry that would act in competition with existing industries unless he had sufficient information from his officers or inspectors to be assured that there was a demand for the goods a certain industry was producing, a greater demand than could be supplied.

In conclusion might I state, as stated by Mr. Fraser in the house, I think it was on Tuesday: in whom will we place our confidence if not in the Minister of Finance, his deputy and the Governor of the Bank of Canada? As you understand, they have the work not only of financing the government but they also have the work, according to him, of seeing that post-war development is carried on in a way that will guarantee stable employment. I do not say full employment. I do not like the words "full employment" because I think it will be a different matter to have full employment. But if we could have stable employment, that would be a good thing. It is for these reasons that I have addressed the committee and I personally am sure that this Industrial Development Bank will fill, as some say, a gap or at least a long felt want. My opinion is that this bank should have come into existence many years before to-day.

Hon. Mr. ILSLEY: Mr. Chairman, would Mr. Gray permit me to say a word before he speaks?

Mr. GRAY: Yes.

Hon. Mr. ILSLEY: I am going to suggest for the consideration of the committee certain amendments to the bill. Would you prefer to speak before I do so, Mr. Gray?

Mr. GRAY: I was just going to say a word.

Hon. Mr. ILSLEY: All right.

Mr. GRAY: I think perhaps if you will allow me to speak, it will not delay matters much because I shall be brief.

Hon. Mr. ILSLEY: All right.

Mr. GRAY: We have had many days of discussion on this bill, and I am sure we want to hear the amendments which the minister has in mind. However, I do want to bring the committee back once more to clause 15, which was discussed, on the business and powers of the bank. It was perfectly in order, when we reached clause 15, that the powers should have been discussed; and I think it has been very worthwhile that we had this very general discussion on the bank when we reached the problem. The discussion has been mainly, as I see it, on subsection (a) of clause 15. I am going to make a suggestion to the minister and to the committee. I admit when I looked at this bill first, I viewed it with some hesitation and some reluctance. However, I have, over the period of the week or ten days we have been discussing it, been convinced that there is a gap, as has been pointed out by Mr. Ryan, in connection with small industrial concerns, and that this bank may fill a real need in connection therewith. But it is my thought, Mr. Minister, that as a start in connection with the Industrial Development Bank, we should limit ourselves to the provision in clause (a) (i), namely, lend or guarantee loans of money to persons engaged in or about to engage in industrial enterprise in Canada; and that we should, at least at the outset, eliminate from this bill clause (a) (ii), namely, the bankruptcy section in its broadest sense, because I am fearful that that section will be misinterpreted by the people in general and that there will be pressure brought on the officials of the bank that would be unwarranted in many instances. With regard to the kind of cases that Mr. McLraith mentioned—for instance, where these people have been in business during the war and there is a certain period of time in which they are going to be financially embarrassed afterwards before they can get back into peace-time organization—my feeling is that is the time for them to apply under clause (a) (i) in order to get assistance to carry on, because they are then engaged in business as interpreted by that clause.

Mr. McILRAITH: On that very point, may I say they could be put in bankruptcy for a \$500 debt, in ten days' time.

Mr. GRAY: That is quite right. But any concern which can be put into bankruptcy for \$500 and has not \$500 to pay to its creditors, I do not think is the type of industrial concern that we are going to assist.

Mr. McILRAITH: But suppose your idea is adopted and suppose the order is taken out. Then it is outside the power of the Industrial Development Bank.

Mr. GRAY: That might be. My friend will understand, of course, that there will be no difficulty about the trustee in bankruptcy refitting that industry and putting it back into business. It is only institutions under clause (ii) where the trustee—and this is a safeguard I am frank to admit—has been given power to borrow that the bank can deal with it. I gather that is a safeguard for the bank. But I would call to the attention of whoever drafted this bill and of the officials that the bank, according to line 10 of clause (ii), may take security with or without personal liability from such receiver. No one ever heard, as far as I know, of a receiver ever making himself personally liable for a loan or anything of that kind.

Mr. MARIER: There are the assets.

Mr. GRAY: No. It says, "personal liability". It does not say anything about the assets in that connection. There has been a great deal said on the bankruptcy section, and I am not going to labour it. As I say, I would prefer to see that clause (ii) of clause (a) dropped.

Then when you get into sections (b) and (c) of clause 15, Mr. Chairman, you are entering into an entirely new field.

Mr. MAYBANK: May I ask you a question there before you leave that?

Mr. GRAY: Yes.

Mr. MAYBANK: You will admit that you rely on your board of directors in any company.

Mr. GRAY: Yes.

The CHAIRMAN: A little louder, please, Mr. Maybank.

Mr. MAYBANK: You have to rely, and it is admitted that you do, on your board of directors in any company. If you are relying on them, there is not any reason to expect that they will lend to these what you might call thoroughly bankrupt concerns, excepting that there is a possibility of pressure on them of some sort. Surely if we are going to fear pressure, we should not restrict it to these alone, because there are not any of these loans that you cannot expect some pressure on.

Mr. GRAY: I think there will be pressure in both cases. That is one of the reasons I have been somewhat fearful. But I think in connection with bankrupt concerns there will be pressure of a different type and of a different kind. As I say, I would prefer that as a start, in connection with the bank, that clause should be omitted. It may be that after a year or two of operation the directors of the bank will be able to come and convince this committee, or certainly convince those sitting, that they should do this. But as a start, I think that that section will be misinterpreted and misunderstood, and is a clause that should be left out. That is my own feeling.

With respect to subsections (b) and (c), as I say, it seems to me to be entering an entirely new field altogether. I will just read (b):

enter into underwriting agreements in respect of the whole or any part of any issue of stock, bonds or debentures of a corporation engaged in or about to engage in an industrial enterprise in Canada.

To understand that part one has to go back to clause 2 of the Act and read the interpretation of underwriting agreement. Underwriting agreement, under subsection (f) of clause 2 is defined as follows:—

"Underwriting agreement" means any contract under which the bank undertakes conditionally or unconditionally to subscribe for stock, bonds or debentures with a view to the re-sale thereof or of part thereof.

I think that is getting into an entirely new condition of affairs, not at contemplated under clause (a), and getting into the business in a much more substantial way than the mere lending or guaranteeing of loans to industrial institutions to assist them along. For the same reason, largely, I disagree with subsection (c). I would seriously ask the sponsors of this bill if they would not consider limiting (b) and (c) so as not to get into this business of buying and selling stocks and debentures of industrial concerns. I will go along with them as far as it is a matter of lending money or guaranteeing loans to small industrial concerns which are doing business in this country. I think that is something that is really needed. I have become convinced of that. But I do not want to see this bank, in its initial stages at least, get into the buying and selling of stocks and debentures as defined under (b) and (c).

Mr. RYAN: May I say a word here? In the experience I have had I remember that very question came up in regard to a company that would be formed and which would have a certain amount of stock. We will say, for example, an issue of \$100,000 worth of stock. They could not finance it at the present time, and if there was a finance corporation they would have deposited the stock with the finance corporation with the intention of retailing that stock as soon as they got into a good position. I would understand clause B, Mr. Gray, to mean practically the same thing. The bank would take the stock and the company would most likely retail the stock at a certain time. I do not think there is much danger in that part.

In regard to the other part I explained what my idea was of advancing money to a bankrupt concern. I do not know as there is very much danger in the other clause because we will have to place our confidence in the management, and as far as I am concerned, as I said before, I have sufficient confidence in the men who are responsible for the introduction of this bill to believe they will not go into the advancing of money to any industry or any enterprise by which advance the Dominion of Canada would lose any amount of money. There may be a certain amount of money lost over a term of some years. That stands to reason. There may not be. We expect there will be a certain amount of money lost under the farm loans, but over a term of years I should think that this Industrial Development Bank will pay its own way and have something on hand.

Hon. Mr. ILSLEY: Mr. Chairman, we have had a great deal of discussion about this bill. I have given consideration to the arguments which have been advanced against certain sections of it and in favour of certain suggested amendments. I have three points in mind.

It was suggested by some members that there should be some requirement of investment by the applicant. That was pressed very strongly by Mr. Fraser. He suggested 50 per cent of the total capital should be invested by the applicant in order to qualify an enterprise for a loan or advance of the other 50 per cent. That was one suggestion which was very forcefully presented to the committee.

Another was that the section relating to loans to receivers and liquidators be deleted. There was a considerable amount of discussion on that. The third was that there be some limitation on the size of the enterprises which could qualify for a loan, which would be eligible for a loan.

Mr. Gray has brought up certain other points to-day which I did not hear discussed before. After I have finished with these points I have mentioned I should like to come back to them and ask Mr. Towers to give the reasons why B and C are considered important in the bill.

With regard to the first point, the requirement that the applicant be under obligation to make some investment himself before he can qualify I think it has always been contemplated there will be some investment, but I do not think it is possible to fix the amount or the proportion. In the amendment I am going to suggest for the consideration of the committee the intention will

be made clear that there must be some investment by the applicant himself. With regard to the second point, the point about the receivers and liquidators, this is a clause which has a counterpart in the Bank Act. I think there are very good arguments why the bank should be authorized to make loans to receivers or liquidators. However, I am free to admit that the insertion of such a clause is open to misconstruction, and while that may not be a very good reason for dropping the clause, from some points of view it might be a good reason. I do not think that the proportion of loans to receivers and liquidators would be large if we left that clause in. There might be none at all. While I think it would be desirable to leave the clause in—I do not think it would be dangerous to leave the clause in—I am quite prepared to acquiesce in the decision of the committee on that point if the majority of the members of the committee would like to leave that clause out. It is not essential to the bill at all. The bill can do nearly all the work that it otherwise would do without that clause being in.

With regard to the third point, the limitation of the amount that anybody can obtain from the bank, there have been suggestions that there should be a limitation of \$50,000 or \$100,000. I think those amounts are entirely too small. I am going to propose that the limit be \$200,000 except as to \$15,000,000, that loans in excess of \$200,000 may not aggregate more than \$15,000,000 altogether.

Mr. MAYBANK: What is that?

Hon. Mr. ILSLEY: I am going to suggest an amendment to this effect, that loans in excess of \$200,000 may not aggregate more than \$15,000,000 altogether.

Mr. MAYBANK: That is 10 per cent.

Hon. Mr. ILSLEY: It is 15 per cent of the \$100,000,000. That means 85 per cent of the loans must be under \$200,000, loans and advances. I am using loans in the loose sense. I think that is as far as we should go in limiting or restricting the field of operations of this bank. I have put these all in an amendment here which I shall read, and if anyone would like to move it it will be satisfactory to me.

Mr. MAYBANK: Do you want to take them up one at a time?

Hon. Mr. ILSLEY: It is an amendment to section 15.

That clause 15 of bill 7 be struck out and the following substituted therefor:—

15. (1) Subject to section 14 of this Act, if in the opinion of the board, credit or other financial resources would not otherwise be available on reasonable terms and conditions to a person engaged in or about to engage in an industrial enterprise in Canada and if in the opinion of the board the amount of capital invested or to be invested by the said person in the industrial enterprise, or where the said person is a corporation, the amount of capital invested or to be invested in the said corporation by the purchase by persons other than the bank of capital stock therein, is such as to afford the bank reasonable protection, the bank may

- (a) lend or guarantee loans of money to the said person;
- (b) where the said person is a corporation, enter into underwriting agreements in respect of the whole or any part of any issue of stock, bonds or debentures of the corporation;
- (c) where the said person is a corporation, purchase or otherwise acquire with a view to resale thereof the whole or any part of any issue of stock, bonds or debentures of the corporation from the corporation or from any person with whom the bank has entered into an underwriting agreement in respect of the said issue and may subsequently sell or otherwise dispose of the said stock, bonds or debentures.

(2) Notwithstanding anything contained in subsection 1 of this section, the aggregate of the amounts of the loans or liabilities of the bank, and of the expenditures by the bank for securities held by it, specified in the next succeeding subsection, shall not at any time exceed \$15,000,000.

(3) The aggregate referred to in the last preceding subsection shall include the following amounts:—

- (a) the amount of every loan made by the bank on which an amount in excess of \$200,000 is owing, and
- (b) the amount of the liability of the bank in respect of every loan guaranteed by it under which guarantee the liability of the bank is in excess of \$200,000, and
- (c) the amount of the liability of the bank under every underwriting agreement under which agreement the amount of the liability of the bank is in excess of \$200,000, and,
- (d) the amount of every expenditure by the bank for stock, bonds or debentures held by it issued by any one corporation if the amount of the expenditure for the purchase of the said stock, bonds or debentures so held exceeds \$200,000, and
- (e) the total amount of loans owing by any person to the bank and of loans to the said person guaranteed by the bank to the extent that they are so guaranteed and, where the said person is a corporation, of liabilities of the bank under any underwriting agreements with respect to the issue of stock, bonds or debentures by the corporation and of expenditures by the bank for stock, bonds or debentures held by it issued by the corporation, if the said total amount exceeds \$200,000: Provided that there shall be deducted from the said total amount before including it in the said aggregate the amount of any loan, liability or expenditure included in the said aggregate under paragraph (a), (b), (c) or (d) of this subsection.

That is involved in legal terminology but all it means is that advances of amounts exceeding \$200,000 shall not aggregate more than \$15,000,000.

Mr. MAYBANK: I think we all understand the import of it. If it is appropriate to carry that in the one motion I would so move. If it is desirable to split it up then I will move the first one of the sections.

Hon. Mr. ILSLEY: I think it is all right that way.

Mr. MAYBANK: If the one motion is appropriate I so move.

Mr. McILRAITH: Mr. Chairman, I should like to hear the latter part of subsection 1, where we are dealing with the point covered by subsection (b) of the existing printed section. I thought that the words "engaged in or about to engage in an industrial enterprise in Canada"—those words of limitation—were left out.

Dr. CLARK: It comes in the first part of the paragraph and carries all the way down.

Mr. McILRAITH: The limitation does apply?

Dr. CLARK: Yes.

Hon. Mr. ILSLEY: I realize that this is in accordance with the views held by some members of the committee—or partially on account of the views expressed by certain other members of the committee.

Mr. GRAY: (b) and (c) are still included?

Hon. Mr. ILSLEY: Yes. Now, the situation is that Mr. Maybank moves this amendment, so it is before the committee for discussion.

Mr. MAYBANK: Might it not be as well to get that amendment disposed of before we determine anything at all respecting (b) and (c)?

Hon. Mr. ILSLEY: (b) and (c) are included.

The CHAIRMAN: (b) and (c) are included.

Mr. MAYBANK: Yes. All right.

The CHAIRMAN: May I ask if under that you would have the right to lend \$15,000,000 to one concern, if we grant the authority to the bank?

Hon. Mr. ILSLEY: That is right; that is possible.

The CHAIRMAN: You could grant a credit subsidy to one concern of \$15,000,000?

Hon. Mr. ILSLEY: I do not know what is involved in the use of the words "credit subsidy", but an advance of \$15,000,000 to one company would be possible. Under the bill as it stands I presume it is correct to say that an advance of \$100,000,000 to one company is possible, but I could not anticipate that you would have anything like that. The purpose of the amendment is this: not to shut off a certain number of loans of more than \$200,000. If a company wanted \$225,000, for example, or \$500,000, it could get it, provided there were not too many of those loans—provided the total of those loans did not exceed \$15,000,000.

Mr. BLACKMORE: One of the abuses possible under the Act, as I see it, is that the loans might be concentrated in a certain area, or among a certain group of people. I am wondering if there is any provision at all whereby that sort of abuse could be guarded against. It is quite conceivable—I am not saying that this will occur, but it is quite a natural reaction from a westerner—it might be conceivable that the loans would be advanced to people in Ontario or Quebec before the westerners got a chance at the loans and the limit of \$100,000,000 would be reached.

Mr. TOWERS: If I might express a view, I feel sure that that will not happen, because it could only happen if the lending power of \$100,000,000 was exhausted. Up until that time every applicant who can show that he has a reasonable application would receive the credit irrespective of what part of Canada he came from. Well, then, what are the risks of \$100,000,000 being quickly taken up by applicants in certain sections of the country and later on applicants from other sections of the country finding that they could not get accommodation? I should think none. It would be possible, if parliament so decided, to enlarge the \$100,000,000 amount at a later date. I think myself that it will be a considerable time before any such amount as \$100,000,000 is taken up. I believe that other existing institutions will tend to do more of this business if the Industrial Development Bank comes into existence. That is the experience thus far. Provided they are not left with the desire to keep the business in their own hands, and provided they are not let go too far and take undue risks, that is all right; because all anyone is concerned with is seeing that facilities are provided by someone. With that in mind, and with the thought in mind also that \$100,000,000 is a pretty large amount, particularly when it is mostly in loans of \$200,000 or less, and having in mind also that parliament could later, if it saw fit to do so, increase the amount, I do not think there is any risk whatever of the type which Mr. Blackmore mentioned.

Mr. McCANN: In the preamble of the bill it says, "... with particular consideration to the financing problems of small enterprises:" do you think that \$15,000,000 is sufficient to meet the requests that there are likely to be from small enterprises?

Mr. MAYBANK: It is not 15 per cent it is 85 per cent for the small enterprises.

Mr. McNEVIN: I should like to say a word with respect to the question asked by the chairman of the Minister of Finance: what possibility is there of one firm securing a loan of \$15,000,000, and in that event that would be the total amount available for loans in excess of \$200,000—

The CHAIRMAN: Quite.

Mr. McNEVIN: I think that is something that is very unlikely to occur. I wanted to be clear on that point.

The CHAIRMAN: Not necessarily unlikely to occur, though.

Mr. FRASER (*Northumberland*): Mr. Chairman, due to the fact that during the past sittings of the committee I was probably rather emphatic in connection with this particular clause I wish to take this opportunity to go on record with regard to this amendment the minister suggests. Perhaps with the one exception that has been mentioned by the chairman and by the honourable member for Victoria, I should like to say that this amendment seems to fortify this bill about as far as can reasonably be expected and still leave the bank with sufficient flexibility of operation under the discretion of the Governor and his colleagues. In connection with the elision of section 15 covering bankruptcy and the like, I should like to add to what the minister has said, that I do not believe the elision of this clause will work a hardship on any companies in the hands of liquidators or in the hands of liquidators under the Bankruptcy Act for the reason that was well set out in arguing the pros and cons of this particular clause a few days ago, I believe, either by the Governor or by the deputy minister; inasmuch as once a company gets into the hands of a liquidator all the assets, liquid and fixed, are controlled by the assignee or liquidator, and I believe that both the Governor and the deputy minister will agree with me when I say that the charter of commercial banks would be ample security in cases of that kind if the bank thought such a loan were justified in advancing money to a company in liquidation. I believe that both the gentlemen I have mentioned will agree, as well as the minister, that the elision of that clause is not going to work a hardship or is not going to constitute an obstruction to the continuity of a business in the hands of a liquidator. I just want to say, Mr. Chairman, in conclusion, that as one member of this committee I appreciate very much the consideration that has been given not only by the Governor of the Bank of Canada and the deputy minister but by the hon. Minister of Finance; the very careful considerations they have given to this bill with the object of having it as practicable as possible.

Mr. RYAN: Mr. Chairman, I had a reason for referring to liquidators and receivers because of the experience I have had, and I know of a number of essential businesses which were finished completely and liquidated because they wanted to get a certain amount of money and for that first purpose would try to realize the assets of the company as quickly as possible and in that way be able to meet current expenses. That is my reason for having said what I did. I have no interest whatever in any liquidator or receiver. I still maintain my opinion; I think, as Mr. Fraser says, that an amendment should be brought in which will provide for a bankrupt business being recognized.

Mr. FRASER (*Northumberland*): You mean, when the assets have all been taken over?

Mr. McNEVIN: It seems to me, Mr. Chairman, that you have granted us pretty wide latitude generally in discussion on this bill. I wonder if now we could not proceed to discuss it clause by clause so that we can get somewhere.

The CHAIRMAN: We are now at section 15 of the bill, an amendment to which has been moved: shall the amendment carry?

Mr. MAYBANK: I thought you wanted to get a new (b) and (c).

Hon. Mr. ILSLEY: Mr. Gray raised the point on (b) and (c). I think it would be well to have the Governor of the Bank of Canada say a word about the merits of that.

Mr. TOWERS: Speaking first of (c): it is, of course, not the intention that the Industrial Development Bank should be allowed to buy or sell securities in the market. The section in question provides that stocks, bonds or debentures of the corporation may be purchased from the corporation; of course, that contemplates that they be new issue. Then the question might be, should the Industrial Development Bank be allowed to advance credit in this form; namely, for the purchase of securities; or, should it only be allowed to do so by making loans to the corporation or individual—corporation in this case—or guarantee such loans. Having in mind that the intention is to provide capital of medium or long term, loans are not the best or normal way of doing that. One can do that in the first instance if it was hoped that within a fairly short period of time the company in question could repay those loans by making an issue to the public, but if that did not seem likely to take place within a reasonable time there would be occasions where it would be very desirable for the Industrial Development Bank to buy all of the securities so that the balance sheet of the corporation could show that it was financed in an appropriate way by longer term borrowing rather than that it had what the public might well believe to be an overhanging bank loan. I think that there would be, and if the Industrial Development Bank bought bonds, say if a corporation's balance sheet showed that it had been appropriately financed in that form, as it progressed in its affairs and put more security behind the bonds, I think there would be more chance of the Industrial Development Bank then being able to resell those securities to others than there would be if the corporation were apparently staggering along under an unduly heavy burden of current liabilities.

Section (b) really flows out of that, or that is the main idea behind it. Suppose there had been a loan from the Industrial Development Bank and that it was then desired that that loan should be repaid by a sale of securities to the public, the corporation would then find some dealers in the investment business to try to float that issue. They might very well find that the dealers might not wish to underwrite the bond issue. Dealers are not very keen on doing that unless the security concerned is of a pretty gilt-edged type; on the other hand for a corporation to start the ball rolling on the flotation of a bond issue and then find that it can only get half way, that the public only bought half the issue, then to have half of that issue outstanding and half on a bank loan would present a very unsatisfactory psychological result. It is much better, if you once put your hand to that cloth, to clean the thing up by a complete sale of the bond issue, of which in the case visualized only a part might be taken by the public and the balance taken up by the Industrial Development Bank.

Mr. McCANN: Is it the intention of the bank to guarantee that bond issue which reaches out to the public?

Mr. TOWERS: Oh no.

Mr. FRASER (*Northumberland*): That would stabilize it, your suggestion would stabilize the bond issue.

Mr. TOWERS: It would enable the original flotation to be carried out.

Mr. FRASER (*Northumberland*): It would stabilize it.

Mr. TOWERS: Yes, in respect to the market price, of course.

Mr. FRASER (*Northumberland*): Why not even in respect to market price?

Mr. TOWERS: Well, the Industrial Development Bank cannot subsequently buy any of these bonds on the market.

Mr. FRASER (*Northumberland*): No, but through the fact that the Industrial Development Bank has the power and exercises that power, under that clause, would undoubtedly have the effect of stabilizing the bond issue.

Mr. TOWERS: Oh, perhaps of increasing the prospect of success for the bond issue.

Mr. FRASER: Yes.

Mr. TOWERS: I think that is true. As to that other question, as to whether the Industrial Development Bank would guarantee the issue sold to the public; the answer is, of course, no. Nor would it guarantee bonds which it had first acquired and subsequently resold. And now, if it is suggested that bonds first acquired by the bank and subsequently resold to the public would be considered to carry a guarantee from the bank; should the business or industry concerned later get into trouble—will the people who purchased such bonds stand at the doorstep of the Industrial Development Bank and say you sold us a pup—

Mr. McCANN: I think they would.

Mr. TOWERS: —that is the stand which people do take when they buy securities. There have been complaints in the past, of course, in regard to sellers. I think that the only thing we can say is that that is a risk which people have to take, and naturally the Industrial Development Bank is not going to be mixed up in the show, are not going to sell securities unless at the time they are sold it is believed that it is a fair and reasonable purchase for the buyer, but it cannot undertake any responsibility over conditions which may arise five, ten or fifteen years later.

Mr. FRASER: It is a question which can be interpreted as the enlarging of the collateral, so far as the bank is concerned. The powers of this clause which we are discussing enlarge the collateral possibilities of the bank, that is the collateral security from the borrower.

Mr. TOWERS: I am not quite certain that I understand what you mean, but I think I do. For example, on the loan which it might make to a corporation, it would very probably have as collateral security the types of issues which are mentioned in (c).

Mr. FRASER (*Northumberland*): That is what I mean by my suggestion.

Mr. TOWERS: Yes.

Mr. FRASER (*Northumberland*): That it is enlarging or extending the clause as far as the bank's possibility of accepting collateral is concerned.

Mr. TOWERS: Yes. It has broad powers in some other section.

Mr. FRASER (*Northumberland*): Broader power than some other section?

Mr. TOWERS: Yes, even broader power.

Mr. FRASER (*Northumberland*): In other words, it enlarges the collateral acceptance of the industrial bank?

Mr. TOWERS: I think that is the case. Section 16, of course, deals with possible collateral.

Mr. FRASER (*Northumberland*): Even over section 16, if you take the literal interpretation of these two clauses it places the bank in a wider position. I will put it another way. It places the bank in a wider position in the acceptance of collateral against this loan.

Mr. TOWERS: In this sense, yes, that it may take this type of security either as collateral or at a later date it may acquire it in ownership.

Mr. FRASER (*Northumberland*): Yes, it may acquire it. But it can, under this clause, take it as collateral.

Mr. TOWERS: Yes.

Mr. FRASER (*Northumberland*): That is my point.

Mr. TOWERS: Yes.

Mr. FRASER (*Northumberland*): It enlarges the collateral security acceptance position of the bank.

Mr. TOWERS: I think perhaps you can put it that way, yes.

Mr. McCANN: May I ask this question, Mr. Towers. With reference to these bonds which the industrial bank would take from a business concern, would the bank be prepared to guarantee the interest on those bonds under the same conditions as those under which the government guarantees the interest on the bonds of the Canadian National Railway?

Mr. TOWERS: It would have no power to do that, no.

Mr. GRAY: As I understand it, having raised this question of eliminating (b) and (c), they have been combined in the amendment the minister moved. As I understand it, Mr. Towers, you feel this is something that is necessary to complete the whole working powers of the bank, combined with (a). In other words, in assuming that it was a new field I was in error, as you have now explained. You feel the necessity for it in making this a working success, for the reasons you have outlined, that the mere loan or the mere guarantee might not be, in long-term lending, as suitable as issuing a debenture or bond?

Mr. TOWERS: That is correct. It is very much the desire that the fund provided should be, as far possible, a revolving fund, so that as quickly as possible if the concerns receiving credit get along all right, the public or other shows can take over and the Industrial Development Bank will have the funds free to move on to something else.

Mr. GRAY: And get out.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Is the amendment carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Is the clause as amended carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 16.

Some Hon. MEMBERS: Carried.

Dr. CLARK: It is similar to the Bank Act.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 16 is carried. Section 17?

Dr. CLARK: This is, again, similar to the Bank Act.

Some Hon. MEMBER: Carried.

The CHAIRMAN: Section 17 is carried. Section 18?

Dr. CLARK: Again it is similar to the Bank Act.

The CHAIRMAN: It is similar to the Bank Act. Shall it carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 18 is carried. Section 19?

Mr. McNEVIN: There is an amendment to section 19. I move in amendment that clause 19 of bill 7 be struck out and the following substituted therefor:—

19. (1) Security upon goods, wares and merchandise may be given to the bank under this Act in the same form and mode by which security upon goods, wares and merchandise may be given under section eighty-eight of the Bank Act to a bank incorporated by the Bank Act.

(2) Delivery of a document giving security upon goods, wares and merchandise to the bank under the authority of this section, vests and shall vest in the bank in respect of goods, wares and merchandise therein described

- (a) of which the person giving the security is the owner at the time of
- (b) of which such person becomes the owner at any time thereafter before the release of the security by the bank, whether or not such goods, wares and merchandise are in existence at the time of such delivery of such document, or

the same rights and powers as if the bank had acquired a warehouse receipt or bill of lading in which such goods, wares and merchandise were described; and all such goods, wares and merchandise in respect of which such rights and powers are vested in the bank under this section, are for the purposes of this Act, goods, wares and merchandise covered by the security.

(3) The provisions of subsection four of section eighty-eight of the Bank Act shall be applicable in respect of any security given to and taken by the bank under the authority of this section.

(4) Notwithstanding anything contained in subsection two of this section and notwithstanding that a notice of intention has been registered pursuant to the last preceding subsection by a person giving authority upon goods, wares and merchandise under this section, where under the Bankruptcy Act, a receiving order is made against, or an assignment is made by such person, wages, salaries, or other remuneration or in respect of the period of three months next preceding the making of such order or assignment, to employees of such person employed in connection with the business in respect of which the goods, wares and merchandise covered by the security were held or acquired by such person, shall be a charge upon the goods, wares and merchandise covered by the security in priority to the rights of the bank therein and if the bank takes possession or in any way disposes of such goods, wares and merchandise, such wages, salaries, remuneration owing for the period aforesaid shall be paid by the bank and the bank shall be subrogated in and to all the rights of such employees to the extent of the amounts so paid.

Dr. CLARK: Mr. Chairman, that amendment is merely consequential upon certain changes made in section 88 of the Bank Act.

Mr. MAYBANK: That amendment is satisfactory?

Hon. Mr. ILSLEY: The word "owing" should be substituted for the word "or." That is merely a clerical error. That is in subsection (4), in the seventh line.

Some Hon. MEMBERS: Carried.

Mr. FRASER (*Northumberland*): It is just to bring it in line.

The CHAIRMAN: Shall the section as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 20.

Dr. CLARK: This is an amendment of the same kind, for the same purpose.

Mr. McILRAITH: I move that subclause (2) of clause 20 of bill 7 be struck out and the following substituted therefor:—

(2) All the rights and powers of the bank in respect of goods, wares and merchandise mentioned in or covered by a warehouse receipt or bill of lading acquired and held by the bank or by a security given to the bank under the last preceding section, shall, subject to the provisions of subsection three of the last preceding section, have priority over all rights subsequently acquired in, on or in respect of such goods, wares and merchandise, and also over the claim of any unpaid vendor, but such priority shall not be given over the claim of any such unpaid vendor who

had a lien on the goods, wares and merchandise at the date of the acquisition by the bank of such warehouse receipt, bill of lading or security unless the same was acquired without the knowledge on the part of the bank of such lien.

Mr. RYAN: That is just a consequential change?

Dr. CLARK: It is the same thing, a consequential change upon a change made in the Bank Act.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the section as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 21.

Mr. McNEVIN: I believe there is a somewhat similar amendment to section 21, largely to bring it in line with some of the suggestions made in the committee. I move:—

That clause 21 of bill 7 be struck out and the following substituted therefor:

21. In the event of non-payment at maturity of any loan made or guaranteed by the bank as security for the payment of which the bank has acquired and holds a warehouse receipt or bill of lading, or has taken any security under section 19 of this Act, the bank may sell the goods, wares and merchandise mentioned therein or covered thereby or so much thereof as will suffice to pay such loan, with interest and expenses returning the surplus, if any, to the person by whom such security was given; but such sale shall, unless such person has agreed to sale thereof otherwise than as herein provided, be made by public auction after

- (i) notice of the time and place of the sale has been given by registered letter mailed in the post office, postpaid to the last known address of the person by whom such security was given at least ten days prior to the sale, and
- (ii) publication of an advertisement of the sale, at least two days prior to such sale, in at least two newspapers published in or nearest to the place where the sale is to be made, stating the time and place thereof; and if the sale is in the province of Quebec at least one of such newspapers shall be a newspaper published in the English language and one other newspaper shall be a newspaper published in the French language.

The CHAIRMAN: Shall the amendment carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the clause as amended carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 22.

Dr. CLARK: It is the same as in the Bank Act.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 23.

Dr. CLARK: This is also similar to the Bank Act section.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 24.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 25.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 26.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 27.

Mr. McILRAITH: In subsection 1 of section 27 I note that it limits the Governor in Council to appointing auditors appointed to audit the affairs of the Bank of Canada. I wonder why that limitation is in there. Why not give them freedom to appoint the same or different auditors? There may be several reasons under the circumstances where they might want different auditors.

Dr. CLARK: It certainly simplifies it.

Mr. McILRAITH: Why are the last words, "to audit the affairs of the Bank of Canada" included in that subsection?

Dr. CLARK: It would certainly be easier to have the same auditors. It would be far more convenient to have the same auditors who have to be in the Bank of Canada to audit its affairs.

Mr. McILRAITH: I visualize in ordinary circumstances the same auditors would be appointed but why do we put that limitation on it?

Hon. Mr. ILSLEY: If we did not we would have to spell out certain qualifications of auditors which are spelled out in the Bank of Canada Act. Perhaps qualifications is not the right word, but there are provisions in there about rotation, and there is always one French and one English, and so on. That is all set out in the Bank of Canada Act.

Mr. FRASER (*Northumberland*): It would facilitate the auditing, too.

Hon. Mr. ILSLEY: It would facilitate the drafting.

The CHAIRMAN: Shall the clause carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 28.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 29.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 30.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 31.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 32.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 33.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Section 34.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the schedule carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall clause 1 carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the preamble carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall the title carry?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Shall I report the bill?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: The matter of printing comes up. We want a motion to have the bill reprinted. Do you so move?

Mr. FRASER (*Northumberland*): I will move that.

The CHAIRMAN: Gentlemen, we have just one more matter.

Mr. FRASER (*Northumberland*): I should like to move a vote of appreciation to the chairman for his patience, dignity, politeness and good common sense all the way through these hearings.

Mr. BLAIR: And his power of endurance.

The CHAIRMAN: Gentlemen, we have one more matter which, needless to say, is important.

Mr. RYAN: Is there any other bill?

The CHAIRMAN: This is the end of our agenda. It is the subject matter of bill 109, an Act to incorporate the Alberta Provincial Bank.

Mr. BLACKMORE: Mr. Chairman, I wonder if it would be in order for me to suggest that we take this up to-morrow morning. Then we can all be prepared.

The CHAIRMAN: Is it the pleasure of the committee to adjourn until to-morrow morning at 11.30?

Some Hon. MEMBERS: Carried.

The committee adjourned at 1.00 o'clock p.m. to meet again on Friday, August 11, 1944, at 11.30 o'clock a.m.

August 11, 1944.

The Standing Committee on Banking and Commerce met this day at 11.30 o'clock a.m. The Chairman, Mr. W. H. Moore, presided.

The CHAIRMAN: Mr. Blackmore, you have the floor.

Mr. BLACKMORE: Mr. Chairman, once more the province of Alberta is asking that your committee see fit to recommend that Alberta be granted a bank charter. I believe that your committee would be interested in a certain amount of history of this whole question so that we can get it in a proper perspective. I suggest, Mr. Chairman, that in the interests of Canadian unity the federal government should take adequate measures to enable any province of Canada to establish and operate its own provincial bank under the control of its own responsible government. I would urge, Mr. Chairman, that your committee should so find. The federal government should allow every province in the Dominion of Canada to have a bank, if it so desired and its people supported it in the expression of that desire, for several reasons: first, in the interests of democracy in Canada; second, in the interests of prosperity and happiness in Canada; and third, in the interests of stability and the maintenance of the British North America Act. It will be asked: In what respect is democracy involved in this question? To answer that question I believe that it would be well to give some attention to the whole question of democracy. One of the most famous definitions of democracy in the world was that of Abraham Lincoln, in which he said, "Democracy is government of the people, by the people and for the people." What people, Mr. Chairman? What people are to govern Alberta? What people are to govern Quebec or Nova Scotia? Are the people of Alberta to have no effective voice in their government? Are the people of Quebec to be denied an effective voice in the control of their own affairs? Are those of Nova Scotia? If so, then how can it be argued that those people have government of the people and by the people? What was the object of confederation? Was it that there should be built up at Ottawa a strong central government

that would be in a position to deny even consideration to the request of the provinces of this dominion? Some people may have that view, but evidence can be adduced to show that such was not the intention of the fathers of confederation, nor was such the interpretation placed upon the British North America Act after confederation had been achieved.

May I now turn to the submission of Nova Scotia to the Royal Commission on Dominion-Provincial Relations in February, 1938. May I read from page 1 of the introductory part of that submission. At the bottom of the page, the following statement appears:—

As was pointed out by the Privy Council in *Liquidators of the America Bank of Canada versus Receiver General of New Brunswick, 1892, Appeal Cases, page 437*—the federation of the provinces did not effect the extinction of provincial autonomy. Rather as the Privy Council said,

The object of the Act was neither to weld the provinces into one nor to subordinate provincial governments to a central authority, but to create a federal government in which they should all be represented, entrusted with the exclusive administration of affairs in which they had a common interest, each province retaining its independence and autonomy.

This pronouncement was made many years after confederation had been effected.

What was the object of the men who sought confederation? To throw light upon that question, may I refer to the submission of Nova Scotia again on page 2 of the introduction, and read from that page the following words:—

In Mr. Johnstone's resolution of 1854, it was declared "that the union or confederation of the British provinces on just principles, while calculated to perpetuate their connection with the parent state, will promote their advancement and prosperity, increase their strength and influence, and elevate their position."

In the light of these two solemn pronouncements, I think it is altogether unbecoming of the dominion government, or of this committee acting for the dominion government, to disregard with haste and callousness, the humble petition of a whole province in this dominion.

The CHAIRMAN: Mr. Blackmore, you are not suggesting, I hope, that this committee is disregarding the application?

Mr. BLACKMORE: No. I am not doing anything of the sort.

The CHAIRMAN: The statement you made seemed to convey that idea to me.

Mr. BLACKMORE: If there is anything in the statement which offends you—

The CHAIRMAN: Would you just repeat your statement so we can judge it?

Mr. BLACKMORE: I cannot repeat my statement. It is there on *Hansard*. I am not speaking from notes. I am speaking extemporaneously, right from my heart; and I mean every word I say.

The CHAIRMAN: But this committee is listening very attentively.

Mr. BLACKMORE: That is good.

The CHAIRMAN: He proposes, so far as I can observe, to do so. It seems to me that you ought not to suggest that there is an unbecoming attitude on the part of the committee.

Mr. BLACKMORE: Mr. Chairman, I repeat that if there is anything in what I said which offends you or the committee, I withdraw it without reservation.

The CHAIRMAN: All right.

Mr. BLACKMORE: Mr. Aberhart in 1935 in Alberta on August 22 was elected on the Social Credit ticket. He was elected by the province of Alberta to

introduce the policy of economic administration known as Social Credit. The three fundamental principles of Social Credit are (1) that there shall be a free flow of credit. . .

Mr. MAYBANK: What is that?

Mr. BLACKMORE: A free flow of credit within the province or the administrative unit. (2) There shall be just prices. (3) There shall be distribution of consumer purchasing power to the consumers known as national dividends to the people, and the token which was mentioned by Mr. Aberhart was \$25 a month to each of the citizens of Alberta. The idea was that the natural resources of Alberta, which in richness are beyond power to describe, and the people of Alberta, capable, aggressive, ambitious, should be enabled to go to work together. It should be possible to combine them to increase the production of Alberta, and to distribute the increased production, thereby increasing the prosperity of that province to the extent that it would mean the equivalent of \$25 or more a month for every person in the province of Alberta.

Shortly after the government was elected it attacked the question of wages. As I recall it the very first minimum wage Act to be placed on the statutes in the Dominion of Canada was the Alberta Minimum Wage Act, which indicates they were concerned about giving fair prices for wages also.

Mr. Chairman, there was a mandate from the people to use the resources of Alberta for the benefit of the people of Alberta. What was the record?

The CHAIRMAN: What was the date of that Minimum Wage Act?

Mr. BLACKMORE: I am sorry I have not that. I did not come prepared with that, but as I recall it it was the first one introduced in the Dominion of Canada.

The CHAIRMAN: After the Social Credit party came in.

Mr. BLACKMORE: That is right.

Mr. MAYBANK: I think we had one in Manitoba prior to that.

Mr. LAFONTAINE: We had one in Quebec.

Mr. MAYBANK: I think this may be the explanation. That was a comprehensive Minimum Wage Act and these others covered classes. Would that be the explanation, because I am pretty sure they existed in several places?

Mr. BLACKMORE: It might possibly be, but our impression was we were in the lead in the matter of minimum wage acts. I have information to this effect: "The Male Minimum Wage Act, for all but farm labourers and domestics, 33½ cents per hour 'steady', 40 cents per hour 'by the hour', time and one-half for overtime; wages must be paid at least monthly."

Mr. MAYBANK: I think you broke new ground there.

Mr. BLACKMORE: That is in the publication from which I am reading which is a little publication issued by the Alberta government on December 31, 1939, called, "The Records Tell The Story." I find this notation. "This is the first general wage order in Canada and marks a great forward step for underprivileged workers."

Mr. McILRAITH: It turns on the word "general."

Mr. BLACKMORE: It is merely incidental. If I was over-favourable to Alberta in my statement I stand open to correction.

Mr. MAYBANK: It does not matter a great deal.

Mr. BLACKMORE: I mentioned it merely to show the whole attitude of the province, and the government was to give a fair income and fair wages to enable people to enjoy that measure of economic wellbeing which one would naturally suppose they ought to enjoy being something like 780,000 people in one of the most richly endowed areas on the face of God's green earth. What followed? The province found very soon that there were in its way a number of restrictions. These had to do mainly with finance. The result was that the Social Credit

Government passed a number of acts which I think the members of this committee would be interested in knowing about, and they would also be interested in knowing what was done with these acts. First there was the Credit of Alberta Regulation Act in 1937.

Mr. DONNELLY: What was that again?

Mr. BLACKMORE: The Credit of Alberta Regulation Act in 1937, to assert the people's property and civil rights as above bankers' right to dominate them. This indicates that the eyes of the administration were on the British North America Act and were particularly centred on section—

Mr. McILRAITH: Subsection 16 of section 92.

Mr. BLACKMORE: Subsection 16 of section 92. I expect to have more to say about that as we go forward. No, it is subsection 13 of section 92 of the British North America Act. What was done with that legislation? It was disallowed by the dominion government. No. 2, the Bank Employees' Civil Rights Act, 1937, to protect the enforcement of the Credit Regulation Act. What happened? Disallowed. No. 3, the Judicature Act Amendment Act, 1937, to protect the Credit Regulation Act from indirect attack by the banks. Disallowed. No. 4, the Home Owners' Security Act, 1938, to protect home owners and induce financiers to make equitable settlements of debts. What happened? It was disallowed. No. 5, the Securities Tax Act of 1938 to transfer the tax burden from the individual to financial institutions. Again disallowed. No. 6, the Limitation of Actions Act, 1935, Amendment Act in 1938, to enforce equitable debt settlement by financial institutions by July 1, 1940. What happened? Disallowed again. No. 7, the Limitation of Actions Act, 1935, Amendment Act, 1938, replacing disallowed Amendment Act, 1938, and setting July 1, 1942, as the time limit for equitable debt settlement. What happened? Disallowed.

Mr. McCANN: Will the hon. member tell the committee—

Mr. BLACKMORE: I think the hon. member will find that he will have plenty of opportunity to talk about it after I have finished. My point is this: can anyone possibly argue that the province of Alberta was allowed self-government; a government "of the people of Alberta, by the people of Alberta, and for the people of Alberta" when its acts, one right after another in succession were disallowed.

The CHAIRMAN: Gentlemen, one at a time please; the reporter can't take three of you speaking at once.

Mr. McILRAITH: With reference to that last statement you made; you say that the people of Alberta as represented by the provincial government have complete control over all their affairs even though those affairs should appear to be within the jurisdiction of section 91 of the British North America Act?

Mr. BLACKMORE: To that, sir, the answer must be from the people of Alberta, when they unanimously request such control of their credit as will enable them to discharge their responsibilities under subsection 13 of section 92, are they to be refused the privilege of doing that; are they to be denied that; are they to be denied living within the British North America Act?

Mr. MAYBANK: We will agree that the people of Alberta unanimously did decide on the social credit government in 1935; which is not correct, it is too broad a statement, too strong—they did do that and they also sent down to this parliament nothing but social credit members in 1935 and again in 1940; we are to take that as the unanimous decision of the people of Alberta to handle their credit that way, so we say; would you say that is sufficient reason for them to be allowed to handle their credit? If your answer to that is yes, then change the word credit to the word events, and would you give the same answer?

Mr. BLACKMORE: The whole matter centres around that section of the British North America Act which gives the provinces the responsibility over property and civil rights. If members will raise their questions later on, as I proceed with my argument I think they will be able to ask questions in the light of the statements I make. I know the hon. members even refuse to hear Alberta—

Mr. MAYBANK: Don't start throwing stones at members who are not here.

Mr. BLACKMORE: And these are the gentlemen who were suggesting that I should withdraw.

The whole question is this question of democracy, as I see it; the whole question again is this question of whether or not a province in Canada shall have the authority and power to discharge its responsibility under a section of the British North America Act which gives that province power over and responsibility for civil rights within the province.

Mr. DONNELLY: With each case heard in the courts, did not the courts uphold the action of this government to settle cases?

Mr. BLACKMORE: The whole question I am raising—

Mr. DONNELLY: Is that not a fact?

Mr. BLACKMORE: The answer would be that everything has proceeded in a legal manner.

The CHAIRMAN: Louder, please.

Mr. DONNELLY: In accordance with the British North America Act.

Mr. BLACKMORE: Yes.

And right here in the House of Commons we heard a proposal for changing the British North America Act to meet the situation and your Mr. Aberhart was one who did not want any change in the British North America Act; he was against changing it.

Mr. BLACKMORE: By the time I finish with my argument I think I will have it made abundantly clear that there was no reason for changing the British North America Act in order to give Alberta a sufficient measure of control over the credit of her country, in her province, to enable her to exercise effectively the right of control over property and civil rights within the province.

And now, what has further happened in the experience of this Social Credit government? They passed in 1936 an act called the Reduction and Settlement of Debts Act, to settle private debts equitably. This was declared ultra vires. They passed a Provincial Securities Interest Act, in 1936; and a Provincial Securities Interest Act in 1937; they passed again the Guaranteed Securities Proceedings Act in 1937—to cut the provincial debt interest to capacity to pay; The Bank Taxation Act in 1937—to remove the tax burden from individuals with an adequate purchasing power to the banks, the manufacturers of money. Then they passed the Agricultural Land Relief Act, 1938—to remove the tax burden from the land, from production; and then they passed the Alberta Social Credit Act in 1937—to establish a credit system in Alberta; which although not referred to any court was declared ultra vires by the Supreme Court of Canada. Furthermore, in 1937 they passed the Credit of Alberta Regulation Act No. 2—to replace the act disallowed by Ottawa; and in 1937 they passed an Accurate News and Information Act, to insure that the press would give to the public accurate accounts of government policies without restricting the freedom of the press. What was the fate of those measures? In some cases assent was withheld. In some cases they were referred to the Supreme Court of Canada. They were attacked by the federal government.

They were declared ultra vires because of their alleged connection with the Social Credit Act which was not before the courts. The Alberta Government then appealed to the Privy Council the Credit of Alberta Regulation Act for the purpose of testing its validity, but the appeal was not heard by council because the Social Credit Act had been repealed.

I believe future generations on reading the account of these events will look upon it as a tragic story. There is no question that democracy was denied to Alberta.

An Hon. MEMBER: By the courts, you say?

Mr. BLACKMORE: By whatever powers that were.

Now, let us bring our story a little nearer to being up-to-date. In 1940 the Alberta government realized that there was no hope from legislation such as I have indicated and decided that the only thing to do was to adopt a semi-socialistic measure. Let me draw to the attention of the members of this committee this solemn fact, that if the government of Canada refuses to allow the provinces to perform their own economic responsibilities they will drive those provinces and the people of those provinces into socialism. Now, as I said, the Alberta government adopted a semi-socialistic measure, although the social credit movement is opposed to socialism, diametrically; and I may say is the only alternative to socialism, the only means whereby men may have security with freedom. The Alberta government realized that something had to be done and appealed to the dominion government for a bank charter in 1940, having passed an act in the provincial legislature asking that the dominion government be asked for a bank charter. After the legislature of 1940 was concluded, there was an election called. The Alberta government went to the electors and were sustained in 1940, which could easily be taken as evidence that the Alberta people themselves were behind this appeal for an Alberta bank. What happened when the appeal got to Ottawa? The Banking and Commerce Committee of that day refused the appeal. Now, in 1944 again the provincial legislature of Alberta passed an Act asking that the dominion government be asked for a Bank Act. The government saw fit to go to the country after passing that law, and has just been overwhelmingly sustained again. The latest news I have indicates that there are now fifty Social Crediters definitely elected and more seats in which the Social Credit administration is leading in the province of Alberta. Now, surely this must constitute an endorsement of Social Credit policies, and one of those policies is the obtaining of a provincial bank.

The question before this committee, Mr. Chairman, is: shall the will of the Alberta people be utterly disregarded? Shall democracy in Alberta be denied? A moment ago I referred to the dangerous trends which result when the people's desire for reform is thwarted. I think hardly anything could illustrate how serious this trend is in Alberta, because their desire is thwarted, than a statement of the election returns. I believe this committee would be interested to know what were the election results in the city of Edmonton. I shall read them into the record as they appear on page 1 of the Edmonton *Bulletin* of August 9, 1944:—

Premier Ernest Manning (S.C.).....	13,970
Elmer E. Roper (C.C.F.).....	5,113

There are first choices. In Alberta we have first, second and third choices—we have the transferable vote.

J. Percy Page (Ind.).....	4,531
W. J. Williams (Vets.).....	3,417

May I point out that in 1935 there were no C.C.F. candidates in Alberta.

Mr. MAYBANK: What turned out to be the quota?

Mr. BLACKMORE: I will come to that later.

Caine, Johnnie T. (Ind.).....	1,377
Carrigan, Harry D. (S.C.).....	1,169
Kennedy, Orvis A. (S.C.).....	859
Lee, Clifford E. (C.C.F.).....	827
James, Norman B. (S.C.).....	772
Gillies, John B. (S.C.).....	740
MacPherson, James A. (Lab.-Prog.).....	725
Enright, James E. (C.C.F.).....	635
Butterworth, Mary E. (C.C.F.).....	542
Dowler, Joseph H. (C.C.F.).....	531
Halina, William (Lab.-Prog.).....	487
Chapman, Cecil H. (Ind.).....	463
Richards, William C. (Ind.).....	411
Lakeman, Jan (Lab.-Prog.).....	247
Herd, Alex M. (Lab.-Prog.).....	114
Murdoch, Mrs. Grace (Lab.-Prog.).....	68

Mr. MAYBANK: What turned out to be the quota in that election?

Mr. BLACKMORE: This is only the first choice. This was published on August 9th.

Mr. MAYBANK: The quota is reckoned from the first choice. How many candidates were elected altogether?

Mr. BLACKMORE: I do not have that information.

Mr. MAYBANK: How many could be elected?

Mr. BLACKMORE: If members would like me to answer these questions I am prepared to do so at another time. I have a number of points I should like to deal with this morning. I did not come prepared to give details of the election. As I say, any study of these results must give practically any man who is interested in political trends in Canada much cause for pause. Now, there is another set of figures which I think are of importance and interest to the committee in connection with this election. I take these figures from page 8 of the *Edmonton Bulletin* of August 9, 1944.

The CHAIRMAN: Might I suggest that as the hon. member desires to speak on this bill and as he has only a limited time I think it would be better if he left the election returns out. We are all familiar with them. We have all read the daily papers. We have followed the election very closely.

Mr. BLACKMORE: I bow to your ruling, Mr. Chairman; but I do believe it is important that I make this general statement that in Alberta when we elected our Social Credit government in 1935 there was very little socialist thought; but in this last election we have not only the C.C.F., but we have the Communists, and I may point out that the Communists secured a considerable number of votes—the Labour Progressives.

I think this trend towards socialism is a world tendency, illustrated in Alberta: if we do not take measures through our Dominion government to give the people what common sense indicates they are entitled to—that is a sufficient and equitable share in the good things produced by labour in our generation—then we tend to drive the people farther and farther away from calmness and reason and to drive them into the camps of socialists and communists. This constitutes in my mind one important reason why the government should give Alberta her bank. I believe Mr. Mackenzie King said when he was in his election campaign in 1935, "Hands off Alberta". If only Mr. Mackenzie King had kept that promise things would be much different, but

the record will show that the only thing that Mr. Mackenzie King did with the most scrupulous care was to put his hands on Alberta at every opportunity. That is how the Alberta people feel about it, and I speak as their representative here.

I turn from this to the question of democracy. I do believe in the interests of democracy in the Dominion of Canada—not only in the provinces but in the dominion as a whole—in the interest of democracy it would be advisable for this committee to recommend to the dominion government that it makes arrangements to give Alberta her bank and let her try her ideas out. All she is asking for is that this bank should be granted to her under all the regulations of the Bank Act, under the direction of the Dominion of Canada, through the Bank of Canada. One or two members shake their heads. I know whereof I speak. That is right. Alberta has no desire to establish a new monetary system. All hon. members have to do is to read the Act and the amendment which I made on the floor of the house on August 8th to see that. Now, may I turn to the second matter I hope to establish, namely that in the interests of prosperity and happiness in Canada, this committee ought to recommend to the dominion government that Alberta should be granted a bank. I believe that the great majority of the people in this House of Commons, and perhaps throughout the country, little realize how serious is the unhappiness and the disunity in the Dominion of Canada as a whole. There was an outburst only last evening in the House of Commons based upon the outburst of Premier Drew of Ontario. This outburst came from the lips of Mr. Dupuis; and only the prompt action of the chairman in declaring him out of order prevented him from making a statement, which I believe would have been passionate and very emphatic, voicing the unhappiness of Quebec because of the conditions within this country. Not only is Quebec unhappy and is Alberta unhappy. Submissions and statements indicate that other provinces are very unhappy with conditions as they exist. May I read a passage from the submission of Nova Scotia to the Rowell-Sirois Commission.

The CHAIRMAN: Mr. Blackmore, may I again intervene to say that it seems to me these submissions belong more properly to the House of Commons than to a committee dealing with the substance of the bill before us.

Mr. BLACKMORE: Mr. Chairman, I must bow to your ruling, if you insist.

The CHAIRMAN: Not at all.

Mr. BLACKMORE: But the whole question of whether or not this Bank Act should be granted to Alberta hinges—

The CHAIRMAN: I think we should be more specific. We have a specific job in hand. Let us get along with it.

Mr. BLACKMORE: But the whole question must hinge upon the answer to this question: Are conditions in Canada going as they ought to go? Is there a real need for some great fundamental economic or financial change in Canada and would the granting—

The CHAIRMAN: Well, Mr. Blackmore—

Mr. BLACKMORE: May I finish my statement, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. BLACKMORE: Would the granting of this Act to Alberta be a possible measure designed towards the elimination of the cause of this unsatisfactory condition?

The CHAIRMAN: I am just suggesting that that phase of the matter belongs to discussion in the House of Commons rather than in this committee.

Mr. BLACKMORE: Very well. I must bow to your ruling, Mr. Chairman.

The CHAIRMAN: It is hardly a ruling. It is a suggestion.

Mr. BLACKMORE: Yes. Well, I will bow to your suggestion, with this reservation, however, if you do not mind. I make it with all deference to you. If honourable members wish to question any statement I make, I shall give them documentary evidence to support the statements I make. Nova Scotia is intensely unhappy with conditions as they exist in Canada to-day under the British North America Act, and expressed that unhappiness in emphatic and unmistakable terms on pages 82 and 83 of her submission to the Rowell-Sirois Commission. In fact she goes so far as to make this statement, and I quote words with this statement in them:—

On the other hand, we have been forcibly struck with the callousness, the lack of sympathy and general disregard of broad policy, which has characterized federal supervision.

Not only is Nova Scotia unhappy, but New Brunswick is intensely unhappy.

Mr. McILRAITH: Mr. Blackmore, you are saying they are unhappy. What they were doing there was making a claim for certain changes.

Mr. BLACKMORE: That is right.

Mr. McILRAITH: Changes in the British North America Act. Why do you say they were unhappy because they asserted a claim?

Mr. BLACKMORE: That is right. That is fine. I am pointing out to this committee, as I did in the House of Commons the other day, that the only reason Nova Scotia has not asked for control of her credit is that she has not yet come to realize that the cause of her trouble is lack of control over her credit. Alberta has come to realize that.

Mr. McILRAITH: Is that not a matter of amending the British North America Act?

Mr. BLACKMORE: You do not have to amend the British North America Act. Alberta does not ask that the British North America Act be amended. Alberta has never asked that. The Social Credit movement has never asked that the British North America be amended.

Mr. MARIER: The provincial legislation has been disallowed.

Mr. BLACKMORE: All that Alberta has ever asked has been that the British North America Act should be exercised as it was designed by the fathers of confederation to be exercised, so that no portion of Canada would be impaired economically.

Mr. MAYBANK: Mr. Blackmore, I believe that more members of the committee are in favour of Alberta having a bank than you think. But the trouble comes in clause 5 where certain sections of the Bank Act do not apply. Would it not be possible to get on to the points where disagreement may lie? I have not any objection to Alberta having a bank. I am favourable to it.

Mr. DONNELLY: So am I.

Mr. MAYBANK: But I want an explanation as to why they should be exempted from certain Bank Act sections.

Mr. BLACKMORE: I am more than well pleased to hear you say that.

Mr. MAYBANK: There is no question in my mind, and I think in the minds of many others, as to favouring it.

Mr. BLACKMORE: Then, Mr. Chairman, I do not need to labour that point—

Mr. MAYBANK: Certainly not.

Mr. BLACKMORE: —if the majority of the committee are in favour of granting Alberta a Bank Act.

Mr. MAYBANK: I cannot speak for the majority. I only gave my opinion that there are numerous members who are quite willing to see Alberta have a

bank. The only difficulty with it arises as to why they should have a peculiar kind of bank.

Mr. BLACKMORE: If that is the case, I do not need to elaborate the general point I was making—

Mr. MAYBANK: I should not think so.

Mr. BLACKMORE: —that conditions in Canada, under the present form of administration from Ottawa, are not by any means what they ought to be; and the cause of the trouble, I submit, in all humility, is a faulty administration of credit in Canada.

Mr. MARIER: There are many other causes, maybe.

Mr. BLACKMORE: I submit as a member of the committee, and Social Credit humbly submits—and is prepared to offer abundance of argument in support of its claim—that the primary difficulty in Canada is mismanagement of our credit. The government in Ottawa this year has clearly manifested that they realize that. Otherwise, why the measure to support agricultural credit? Why the measure for the Industrial Development Bank which has just been passed? Why the measure to give family allowances which has been passed? Why the measure to give liberal allowances to returned men, if Ottawa has not come to realize that there is something wrong somewhere with respect to the administration of credit in this country? Alberta merely suggests that one of the prime causes of our trouble is that the dominion government, operating through the banking system and even with the assistance of the Bank of Canada, is not able to take care of the legitimate and necessary credit needs of each and every province in the Dominion of Canada; therefore the province itself should be given a large measure of control over the administration of credit in that province.

The third statement that I made was that this committee should recommend to the government that it should grant Alberta a Bank Act because such a measure is necessary in order to maintain respect for the British North America Act. Two or three times already to-day I have pointed out that there is an inconsistency, or I have implied that there is an inconsistency, in the British North America Act. The British North America Act, in section 92, subsection 13, gives the province control over property and civil rights. Since I came to this parliament I have never noticed very much care on the part of members to decide just what "property and civil rights" involves and entails. May I just use one simple illustration? Suppose Mr. Maybank now is a farmer. Suppose he has bought a two-section farm. We will say he has paid a number of thousands of dollars down on that farm and that he has borrowed some money to make further payment at a certain interest rate. Then he has undertaken to pay off the remainder of his debt at a certain rate per year. Let us suppose that Mr. Maybank bought this farm and entered on his commitments when wheat was at \$1.50 a bushel. Let us suppose the price of wheat goes down to 19 cents a bushel. Immediately Mr. Maybank finds himself confronted by an impossible situation. He has to make good his obligations under the contracts which were made when the price of wheat was \$1.50 a bushel. He has to make those good when the price of wheat is only 19 cents a bushel, when he loses money on every bushel of wheat he produces. How in the world can Mr. Maybank make good his commitments? It is a matter of utter impossibility. Let us go to Manitoba since Mr. Maybank lives there. If the province of Manitoba is responsible for property and civil rights it must be the duty of the province of Manitoba to protect Mr. Maybank against such outrageous fluctuations in price which rendered it impossible for him to live. Now, let me finish.

Mr. MAYBANK: I never said a word.

Mr. BLACKMORE: May I finish my argument? Other members were going to ask questions.

Mr. MAYBANK: I am rolling in wealth under this supposition.

Mr. BLACKMORE: The illustration I have used for Mr. Maybank can be duplicated maybe thousands of times. How can the province of Manitoba discharge its responsibility to him with respect to his property and civil rights if it cannot control these prices? Mr. Maybank put money into the proposition which was his life's savings. He borrowed money from a bank which, according to our banking advocates, was the people's money (granting their contention is right). He contracts to make payment to the person who owned the land. What happens? Mr. Maybank will lose the money he put into that farm. He will lose the money the bank loaned him and he will probably go the rest of his days, unless he can have some sort of legal action, burdened by a debt which will ruin the rest of his life. Can anyone successfully argue Mr. Maybank's property has been protected by the province, that his civil rights have been maintained and safeguarded. If the province has not been able to maintain his civil rights and guarantee him protection how can it be said that the province has been able to discharge its responsibilities under subsection 13 of section 92 which gives the province control over property and civil rights?

May I point out to honourable members that if they will go through the British North America Act they will find that there are some eight subsections under section 91 which give the Dominion of Canada absolute power. There is only one subsection under section 92 which gives the provinces absolute power.

Mr. MAYBANK: Since you used me—

Mr. BLACKMORE: May I finish first?? I am anxious to have questions, but let me have the argument in sequence. If it was the design of the fathers of confederation that the provinces should not be subjugated and rendered subordinate and impotent under confederation what measure is there by which a province can protect its power if property and civil rights is not that measure which is the only major power that the province is given?

Mr. MAYBANK: Mr. Blackmore, since you used me as the horrible example, even to the point of my hands beginning to get calloused, as I imagined myself on the wheat farm, may I suggest to you that these arguments are not arguments for this committee but that they are court arguments? This matter which you are raising as to whether the province is being allowed full sway under the clause, property and civil rights, is one to be determined under all circumstances in the courts. Of course, they have to read other clauses. They appear sometimes to be contradictory and they have to find ways of harmonizing them. That is what they do. Even if I agreed with everything you have said about the provincial position with relation to property and civil rights, and its rights being taken away from it, still it could not alter the situation in this committee. We have not any right to interpret the constitution at all.

Mr. BLACKMORE: May I say in reply to Mr. Maybank, whose argument is sound—

Mr. MAYBANK: You agree with that, do you not?

Mr. BLACKMORE: Surely. You see, where the difficulty lies is in the working out of the British North America Act, and as it is being developed at the present time it is rendering the British North America Act impossible—

Mr. MAYBANK: You see—

Mr. BLACKMORE: If I may just complete my argument—has rendered it impossible of operation. Our natural conclusion must be that either something was wrong with the drafting of the British North America Act or something is wrong with the way in which it is being lived up to. Our contention as Social Crediters, and my contention as an Albertan, is that the flaw is in the way in which the British North America Act is being worked out, and that the particular sections which the Dominion of Canada is neglecting to administer adequately

are subsections 14 and 15 under section 91 which give the Dominion of Canada power over currency, coinage, banking, incorporation of banks, and the issue of paper money. Our contention is that if the dominion government would honestly, sincerely, scientifically, and in the interests of all concerned, administer those two subsections and invite from the provinces such suitable co-operation as we envisage, there would then cease to be this conflict and disharmony with respect to the working of the British North America Act.

Mr. MAYBANK: The reason I said what I did about it being an argument for the courts—and you recall you agreed with me—was that if it is an argument for the courts is there any wisdom in presenting it to us? You cannot do anything about the enlargement of the field of property and civil rights. We just cannot do it.

Mr. BLACKMORE: We can make recommendations, can we not? May I just use an illustration? Somewhere some committee decided that unemployment insurance was good for Canada.

Mr. MAYBANK: That was agreed on everywhere..

Mr. BLACKMORE: Somewhere somebody recommended to the government that unemployment insurance should be introduced in Canada. Did the committee recommending unemployment insurance halt because there was a constitutional impediment in the way? Not by any means. It recommended to the government unemployment insurance should be introduced in Canada. What did the government do? Realizing that there was a demand for this measure, and that the measure was sound and a beneficial measure, it devised ways and means, and the means which were devised was to go to the Privy Council and ask that a change be made.

Mr. MAYBANK: Following out on the same line you would do this; you would submit that banking to the extent you are asking here should be a provincial matter, and ask co-operation—

Mr. BLACKMORE: No.

Mr. MAYBANK: A provincial matter to the extent you desire and ask co-operation of the various provinces.

Mr. BLACKMORE: Yes, and the dominion.

Mr. MAYBANK: And get an amendment to the constitution as was done in the case of unemployment insurance. That is really the course.

Mr. BLACKMORE: If any amendment should be found necessary. My own opinion is that no amendment is necessary whatsoever.

Mr. MAYBANK: I think most lawyers would disagree. If you have been reading the papers lately you know how much chance there would be of co-operation.

Mr. BLACKMORE: Notwithstanding those lawyers I believe no change in the B.N.A. Act is necessary, but only an adequate federal administration of section 92 subsections 14 (currency and coinage) and 15 (banking, incorporation of banks, and the issue of paper money). It was argued that old age pensions were contrary to the constitution. What was the device which was finally adopted by the dominion government. To pass enabling legislation so that the provinces could qualify. There is no argument—

Mr. MAYBANK: Yes, I agree with that.

Mr. BLACKMORE: Right; now, all that we are asking in this connection is clearly shown in the amendment which I presented in the house the other day; we are merely asking the dominion government to pass enabling legislation that if the provinces pass a law asking for a bank, then the dominion government can pass a measure granting the bank, and so that there can be no possible conflict with the constitution.

Mr. McILRAITH: You took for an example old age pensions, if that is a proper example. Then is not your course to give the functions, the method—I think we should take up the measure itself.

Mr. BLACKMORE: That is a logical question. My stand on that is this; we did approach the government. We sent delegates to talk with government officials before this bill was proposed. What did the government do? It referred the subject matter of the bill to this committee—the subject matter, not the technique of the bill, not the wording of the bill but the subject matter of the bill. And the subject matter of the bill I suppose would be embodied in the answer to this question; is it good, is it desirable, is it expedient, is it in the public interest that a province in Canada should be able to have a bank.

Mr. McILRAITH: My difficulty is this, Mr. Blackmore, the subject matter of the bill can only be taken from the sections of the bill itself as it is printed, there is no other way in which we can understand the subject matter of the bill that I know of. The best way for us to do that is to get at the bill itself.

Mr. BLACKMORE: No, I think you will find that the reference to the committee is on the one point.

Mr. McILRAITH: It refers to the subject matter of the bill, or the principle of the bill, or the substance of the bill and you cannot get it any other place than from the bill itself.

Mr. BLACKMORE: No, I think you will find that if we had argued this matter out in the House of Commons on second reading, we would have argued right around the questions of expediency, of appropriateness, whether it was in the public interest—all that kind of thing. In our argument we would not have referred to the details of the bill at all, we would have looked at the broad principles which underlie the bill.

Mr. McILRAITH: But the principles which underlie the bill must be adduced from a reading of the bill.

Mr. BLACKMORE: And the principle underlying the bill I submit is this, whether it is in the best interests of Canada, that it is in the best public interests of Canada as a whole, from the standpoint of democracy, prosperity, happiness and stability—

Mr. McILRAITH: That is hardly the principle of the bill.

Mr. BLACKMORE: Whether from the standpoint of democracy, of prosperity and happiness, and of the general perpetuation of the British North America Act in harmony it is desirable that a province of Canada should be permitted to have a provincial bank, if its legislature and its people so desire. I think that is the principle, and I have discussed this matter with several people who I think are in a position to say. I say that is the principle; and the result is, that all my arguments endeavour to show that it is in the interests of democracy in Canada, that it is in the interests of happiness in Canada, that it is in the interests of harmony under the British North America Act to have this bill passed; I maintain that all of the arguments that I have submitted bear directly on the subject matter or principle of this bill; and until that can be settled this committee has not done its work at all.

Mr. McILRAITH: This committee is only concerned with—what is the exact terms of the reference?

Mr. BLACKMORE: The subject matter.

Mr. McILRAITH: Yes, the subject matter of this bill.

Mr. BLACKMORE: Or the principle.

Mr. McILRAITH: And all matters other than that have to be decided by the House of Commons, not by us at all.

Mr. BLACKMORE: Well, let us just go a little bit into the constitutional aspect of the matter; that does not enter into the subject matter, the principle anymore than it did in the case of unemployment insurance and old age pensions. And they were the two cases pointed out. In the case of the old age pensions enabling legislation was passed and in the case of unemployment insurance there was a modification of the British North America Act for us to decide. The question is whether or not this committee is sufficiently of the opinion that Alberta should have a bank.

Mr. McILRAITH: I would like to have the reference read.

The CHAIRMAN: The reference is: ordered that the subject matter of bill 109, an act to incorporate the Alberta Provincial Bank be referred to the said committee for study and report.

Mr. BLACKMORE: There is no question that what I have said is correct; the principle of the bill is whether or not it is in the interests of Canada that a province should have its own bank, and if we recommend in favour of that principle then it is the government's business to find ways and means of providing, of giving effect to our recommendation.

And now, Mr. Chairman, I think I have presented my phase of the questions. I would like to have you call Mr. Henderson who has been retained by the province of Alberta to deal with the question of the constitution.

The CHAIRMAN: Is it the pleasure of the committee to hear Mr. Henderson?

Some Hon. MEMBERS: Agreed.

Mr. GORDON F. HENDERSON, called.

Mr. HENDERSON: I shall be very short, Mr. Chairman.

Mr. Chairman and gentlemen, in answer to Mr. Maybank's question, I believe that the purpose of the province of Alberta is to incorporate a bank having exactly the same powers, privileges and obligations as an ordinary chartered bank. They do not wish to be put in a preferred position, notwithstanding the provisions that you refer to in section 5. The sections of the Bank Act are not put in because they would not technically apply to a public institution; if they can be shown to apply to a public institution the province of Alberta would have no objection to having such sections made binding on the Alberta provincial bank, should it be incorporated.

Mr. MAYBANK: That varies.

Mr. HENDERSON: That could be shown by minute examination of the sections.

Mr. MAYBANK: Precisely, that is what I was asking Mr. Blackmore to come to.

Mr. HENDERSON: I think it would be illustrated by referring to the particular section dealing with transmission of shares; there would be no transmission of shares, the government of Alberta being the holder of all the stock.

Mr. McILRAITH: It would qualify the directors.

Mr. HENDERSON: Yes, it could qualify the directors; that would not be necessary, because you have all the shares held in trust for the provincial government.

Mr. McILRAITH: But that would relieve all the directors from personal responsibility then?

Mr. HENDERSON: No, he still has his liability; I submit he has a greater liability as trustee, he would have a greater obligation; he owes a duty to persons on whose behalf he holds the trust.

Mr. McILRAITH: But he would not take a personal loss.

Mr. HENDERSON: He would be subject to action.

Mr. McILRAITH: I had in mind his liability to personal loss and things like that.

Mr. HENDERSON: If negligent, he certainly would.

Mr. McILRAITH: Oh yes, but only if negligent, but in the absence of negligence—

Mr. HENDERSON: Now, if it is the will of the committee to have the individual directors hold shares in their own right—I do not imagine that that would be objectionable to the province of Alberta if it could be shown that these provisions could be applied practically. I have before me the Act of The Province of Alberta to Authorize the Formation of an Alberta Provincial Bank, and it is in broad terms, there is no limitation in the authorizing Act which would indicate in any way that they were trying to obtain any preferences at all; so if this provision can legally be shown and practically be shown to apply, it may be applied without any objection from the sponsors of the bill.

Mr. McILRAITH: Just before you go into the bill; your remarks in respect to the directors, section 5: I notice in section 2 you leave out what may be a very important sentence, you leave this out: "together with such persons as become shareholders in the corporation by this Act created." You leave out all your shareholders except the directors. In the proposed bill you merely incorporate the directors.

Mr. HENDERSON: Correct. The directors would hold all the shares in trust for the province. There would be no shareholder other than the province.

Mr. MAYBANK: Where do you find that in the law?

Mr. HENDERSON: The capital stock shall be \$500,000.

Mr. MAYBANK: I say, where do you find that?

Mr. HENDERSON: I find that in the Alberta statute authorizing the application.

Mr. MAYBANK: May that not be changed; or, can you give us a guarantee that it will not be changed?

Mr. HENDERSON: I have no control over the legislature, no. I cannot guarantee anything that the legislature will do.

Mr. MAYBANK: You made a statement a moment ago, and I asked where you found that in law. You understood me to mean dominion law. It is not there.

Mr. HENDERSON: It does not appear in this bill, but it does appear in law.

Mr. MAYBANK: In a different law of another country?

Mr. HENDERSON: Not of another country, of another jurisdiction.

Mr. MAYBANK: We have nothing to do with that.

Mr. McILRAITH: The point I was making is this, that if we grant incorporation in the form in which it is, there is nothing in that bill to prevent you selling the stock to total strangers.

Mr. HENDERSON: I would have no objection to putting in the exact words that were used in the bill of 1940 where the capital stock of the bank shall be \$500,000 vested, as I recall it—vested in the persons named in clause 1 as trustees for the province of Alberta. Then, that would meet your point. I see no objection in having that imposed in clause 3, so there will be no question but that the shares will all be vested in the provincial government.

Mr. BLACKMORE: Mr. Chairman, I think the record of the Alberta government during the past nine years of administration ought to indicate they will do exactly as they say they will do.

Mr. MAYBANK: What about the next nineteen years?

Mr. BLACKMORE: The same men are in power to-day and will be there for the next four years. The idea is that if they put a stipulation in their own

legislative Act you can be positive that they are people who will keep that stipulation.

Mr. McILRAITH: I was wondering why the stipulation is not in our Act. I think Mr. Henderson has answered that point; he said they would put it in.

Mr. HENDERSON: Now, as I understand the constitution, in 1940 the bill that was presented was turned down on recommendations made by Mr. Varcoe that the bill was unconstitutional. The reason given was—I have the reason summarized from page 220 of No. 9 of the proceedings of the Banking and Commerce committee—the reason given was that the dominion government was imposing obligations—

The CHAIRMAN: Mr. Henderson, may I interrupt for a moment? We have a statement here from Mr. Varcoe, the Deputy Minister of Justice; would you care to have it read?

Mr. HENDERSON: Yes. I believe we should get that on the record.

Mr. BLACKMORE: Would it not be well to have Mr. Henderson deal with Mr. Varcoe's former statement first, because Mr. Henderson has not had an opportunity to consider this statement which has just been issued. Why not permit Mr. Henderson to answer the former statement, and at our next meeting, on Monday, he could answer this other one.

Mr. MAYBANK: I think there is much to be said in the way of courtesy to what Mr. Blackmore has asked: instead of reading Mr. Varcoe's statement at the moment and trying to deal with it, might it not be possible to give a copy of it to Mr. Henderson, and we might consider it at our next meeting. We have evidently got around to adjourning. However, if we just read it and it finds its way onto the pages of *Hansard* that will accomplish the result. My idea is to make Mr. Henderson precognisant of it.

The CHAIRMAN: I spoke to Mr. Henderson and asked him his preference in the matter. It seems to me to be just as well to have the statement placed on the record so we will all be able to read it and then the matter will be before us at the next meeting.

Mr. HENDERSON: I have no objection to that.

Mr. BLACKMORE: May I ask that Mr. Henderson should have the privilege of answering Mr. Varcoe's former statement now?

The CHAIRMAN: If that is his preference.

Mr. MAYBANK: There only remain about three or four minutes anyway.

Mr. HENDERSON: May I say this in the few minutes that remain, that it is my submission that under section 91, subsection 15, it is perfectly clear that the dominion parliament has full competence to incorporate banks. There is no limitation on the dominion power to incorporate banks. They have all the necessary powers. I submit that all this committee need determine, from a legal and jurisdictional standpoint, is to determine if the object of this bill is to incorporate a bank; is that the primary purpose? Is that what this bill is for? Is it to incorporate a bank? And once it is found that the object and the only intention of the bill is to incorporate a bank, then the dominion parliament has complete and exclusive authority within the provisions of subsection 15 of section 91, and I submit that it is very evident on the face of the bill that that is all it asks: it asks to incorporate a bank.

Mr. Varcoe was concerned in 1940 that the bill was imposing certain obligations on the province. Now, the province by having passed legislation authorizing this application has indicated quite clearly that it is prepared to accept all these obligations. In fact, if the committee should choose to be certain there is concurrence in the legislation, the sponsors of the bill would have no objection to imposing or inserting a clause that the Act shall only come into force and

effect on the enactment of legislation by the province of Alberta adopting the Act. There will then be a concurrence by the legislatures, and acceptance of the responsibilities and liabilities imposed on the province in incorporating a bank.

I submit that the objection made by Mr. Varcoe in the 1940 hearing could be overcome by the insertion of a clause of that nature.

The CHAIRMAN: Is it the pleasure of the committee to have the statement of Mr. Varcoe, Deputy Minister of Justice, read into the record? If so, I will ask Mr. Tolmie to read it.

Mr. TOLMIE: This is a letter from Mr. Varcoe, to Dr. Clark, dated August 8th.

Pursuant to your request of August 1, I have given consideration to the question whether bill 109 to incorporate The Alberta Provincial Bank would be within the legislative jurisdiction of parliament to enact. I have come to the conclusion that this bill, if enacted by parliament, would be ultra vires for the following reasons:—

Section 1 provides that certain persons, "being the members of the Executive Council of the Province of Alberta," are incorporated as a chartered bank, and section 2 provides that the persons so incorporated shall be the provisional directors of the bank. Section 5 renders inapplicable to the bank a number of provisions of the Bank Act, notably section 11, which requires provisional directors to subscribe for capital stock. The question as I see it is whether parliament has legislative power to enact these provisions which place upon the members of the Executive Council, in their official capacity, the duties and responsibilities of members and directors of a chartered bank.

The Executive Council of the province comprises the body of constitutional advisers of His Majesty in right of the province, and the Lieutenant Governor, acting with the advice and consent of the Executive Council, constitutes His Majesty's government under the name and title of the Lieutenant Governor in Council. The Executive Council is constituted by section 8 of the Alberta Act, and its powers, authorities and functions are established by that Act; and section 92, head 1 of the British North America Act vests in the legislature of the province exclusive legislative jurisdiction in respect of the constitution of the province, except as regards the office of Lieutenant Governor.

Having regard to the constitutional position which I have mentioned, I doubt if parliament under any of the legislative powers conferred upon it by the British North America Act, for example Banking and the Incorporation of Banks, has jurisdiction to place upon the executive council of the province the authority and responsibility to engage in the business of banking or the operation of a bank.

The bill would incorporate the ministers of the crown as a bank, but would not incorporate as members of the corporation the persons who become shareholders in the corporation; so shareholders of the bank would apparently not be members thereof. On the other hand, the members, that is the ministers comprising the executive council, would not necessarily be shareholders. Section 5, as I have indicated, expressly relieves them in their capacity as provisional directors from the necessity of subscribing for and holding shares. It is true that the Act entitled "The Alberta Banking Powers Act," recently enacted by the legislature of Alberta, provides that the Lieutenant Governor in Council may authorize members of the executive council to subscribe individually for shares in the projected bank and become shareholders and directors, and it is provided that the shares purchased by the members of the executive council are to be held by them in trust for the province. It is further

provided that, upon any shareholder ceasing to be a member of the executive council, he shall thereupon cease to be a shareholder and director, if he is a director, and the shares held by him shall be transferred in the stock book of the bank by order of the Lieutenant Governor in Council to some other member of the executive council. This provincial legislation, however, is undoubtedly in relation to Banking and the Incorporation of Banks, and is therefore *ultra vires* the legislature. It would in my opinion have no operative effect.

The CHAIRMAN: Is it the pleasure of the committee to adjourn?

Some Hon. MEMBERS: Yes.

Mr. MAYBANK: When shall we meet again?

The CHAIRMAN: I would suggest on Monday at 11:30 a.m. Mr. Blackmore has suggested meeting to-morrow at 11.30.

Mr. BLACKMORE: If it is the will of the committee.

The CHAIRMAN: I think it will be better to adjourn until Monday at 11:30 a.m.

Mr. BLACKMORE: We may need to meet to-morrow if the house is going to finish to-morrow night.

The CHAIRMAN: Many of the members cannot be here to-morrow.

Mr. BLACKMORE: I would prefer it that the committee meet to-morrow at 11:30. It will be their responsibility then, not mine.

The committee adjourned at 1:05 p.m., to meet again on Monday, August 14, at 11:30 a.m.

EXHIBITS

EXHIBIT No. 1

BANK OF CANADA

COMPARATIVE STATEMENT OF INCOME, OPERATING EXPENSES AND DISTRIBUTION OF EARNINGS FOR THE YEARS 1939 TO 1943 INCLUSIVE

BANKING AND COMMERCE

1545

Income	1939		1940		1941		1942		1943	
	\$	cts.	\$	cts.	\$	cts.	\$	cts.	\$	cts.
Interest and Discount.....	4,356,155	33	6,746,691	41	9,450,975	31	13,433,367	97	19,719,556	21
All Other Income.....	58,598	09	265,586	84	166,184	95	16,073	77	9,874	59
	4,414,753	42	7,012,278	25	9,617,169	26	13,449,441	74	19,729,430	80
OPERATING EXPENSES										
Salaries.....	644,959	77	725,805	85	(1) 1,334,309	25	(1) 1,560,209	50	(1) 1,665,821	95
Unemployment Insurance and contributions to Staff Pension and Retirement Trust Funds.....	(2) 43,626	11	(2) 114,756	24	124,976	98	134,860	21	142,291	06
Travelling Expenses.....	10,069	09	14,938	68	14,246	72	11,489	46	15,880	18
Directors' Fees and Expenses.....	16,290	05	15,273	58	13,765	91	14,937	10	13,414	36
Cost of Provision of R.C.M.P. Police Guards.....	33,500	00	34,069	85	34,201	36	35,187	68	34,112	34
Cost of Bank Notes (including Postage and Express Charges on Bank Note Shipments).....	848,907	67	1,185,705	19	1,291,057	69	1,518,106	07	949,653	67
Premises and Equipment (including rentals, repairs and maintenance).....	121,534	74	143,354	08	201,732	42	218,866	82	223,218	21
Stationery and Printing.....	25,282	52	52,570	02	103,366	41	110,863	75	101,153	23
Postage and Express (excluding cost of shipping Bank Notes).....	24,085	39	21,440	41	30,066	36	33,675	79	52,758	11
Telegrams and Telephones.....	53,741	78	42,018	66	36,764	04	36,797	25	36,845	35
Insurance (Registered mail, fidelity, hold-up, fire and other).....	10,957	55	11,768	66	12,269	92	12,426	40	16,667	40
Taxes (including municipal, business and stamp).....	139,630	55	152,255	89	143,962	06	89,472	27	106,137	43
Auditors' Fees and Expenses.....	23,472	77	31,934	89	23,428	44	20,887	84	20,887	33
All other Expenses.....	28,585	26	61,411	07	75,822	41	72,416	54	51,836	81
	2,024,643	25	2,607,303	07	3,439,970	37	3,870,196	68	3,430,477	27
DISTRIBUTION OF EARNINGS										
Current Operating Expenses.....	2,024,643	25	2,607,303	07	3,439,970	37	3,870,196	68	3,430,477	27
Transferred to Reserve against Investments.....	450,000	00	250,000	00	250,000	00	250,000	00	250,000	00
Written off to Depreciation of Buildings and Equipment.....	76,384	97	110,515	09	113,804	09	231,766	81	137,474	74
Dividend paid to Receiver General of Canada.....	225,000	00	225,000	00	225,000	00	225,000	00	225,000	00
Credited to Rest Fund.....	2,776,028	22	3,192,818	16	4,028,774	46	4,576,963	49	4,042,952	01
Paid to Receiver General of Canada.....	546,241	73	1,273,153	36	1,862,795	27	887,247	82	1,568,647	88
	1,092,483	47	2,546,306	73	3,725,590	53	7,985,230	43	14,117,830	91
Total Gross Income.....	4,414,753	42	7,012,278	25	9,617,169	26	13,449,441	74	19,729,430	80

(1) Includes Cost of Living Bonus. (2) Unemployment Insurance not exigitble.

EXHIBIT No. 2

BANK OF CANADA

STAFF—DECEMBER 31st

	1939	1940	1941	1942	1943
Head Office	114	123	131	132	145
Currency Division	72	75	77	75	78
Public Debt Division	104	116	130	146	216
War Savings Section .....	....	166	550	720	608
War Savings Committee .....	....	....	115	....	....
Agencies	88	90	96	107	122
	<u>378</u>	<u>570</u>	<u>1,099</u>	<u>1,180</u>	<u>1,169</u>

EXHIBIT No. 3

Return Showing the Fate of all Banks Incorporated Since 1867

Charters not used—lapsed (1).....	38
Banks which commenced operations but were subsequently merged with other banks (A).....	12
Banks operated but subsequently placed in liquidation (2) (B).....	19
Still in business.....	5
	<u>74</u>
	<u>=</u>

- (1) This total includes Eastern Bank of Canada, incorporated in 1928 and granted authority by Treasury Board to commence business; it did not however operate and was wound up with return of capital to shareholders.
- (2) This total includes The Sovereign Bank of Canada, which did not suspend payment and whose liabilities were assumed by certain other banks, the bank itself being subsequently placed in liquidation for the purpose of proceedings against the shareholders.

(A) *Banks Merged:*

Year	Bank absorbed
1903	Halifax Banking Company
1908	The Crown Bank of Canada
1909	Western Bank of Canada
1911	United Empire Bank
1912	The Traders Bank of Canada
1913	La Banque Internationale du Canada
1914	The Metropolitan Bank
1918	The Northern Crown Bank
1919	The Bank of Ottawa
1923	Bank of Hamilton
1924	The Sterling Bank of Canada
1931	The Weyburn Security Bank

Purchasing Bank

The Canadian Bank of Commerce
The Northern Bank (under name of The Northern Crown Bank)
The Standard Bank of Canada
Union Bank of Canada
The Royal Bank of Canada
The Home Bank of Canada
The Bank of Nova Scotia
The Royal Bank of Canada
The Bank of Nova Scotia
The Canadian Bank of Commerce
The Standard Bank of Canada
Imperial Bank of Canada

(B) *Liquidations:*

Bank of Acadia, Liverpool, N.S.
 Metropolitan Bank of Montreal
 Bank of Liverpool, Liverpool, N.S.
 The Consolidated Bank of Canada (City Bank and Royal Canadian amalgamated 1875)
 Stadacona Bank, Quebec
 Exchange Bank of Canada, Montreal
 The Maritime Bank of Dominion of Canada, St. John, N.B.
 Pictou Bank, Pictou, N.S.
 Bank of London in Canada, London, Ont.
 The Central Bank of Canada, Toronto, Ont.

Federal Bank of Canada, Toronto, Ont. (changed from "Superior Bank of Canada")
 Commercial Bank of Manitoba, Winnipeg
 La Banque Ville-Marie, Montreal
 The Sovereign Bank of Canada, Toronto
 La Banque de St. Jean, St. Jean, P.Q.
 La Banque de St. Hyacinthe, St. Hyacinthe, P.Q.
 The Farmers Bank of Canada, Toronto
 The Bank of Vancouver, Vancouver.
 The Home Bank of Canada, Toronto.

EXHIBIT No. 4

CHARTERED BANK AMALGAMATIONS SINCE 1867¹

Purchasing Bank	Bank Absorbed	Date ²
Bank of Montreal.....	Exchange Bank of Yarmouth.....	Aug. 13, 1903
	The Peoples Bank of Halifax.....	June 27, 1905
	Ontario Bank.....	Oct. 13, 1906
	Peoples Bank of New Brunswick.....	April 15, 1907
	The Bank of British North America.....	Oct. 12, 1918
	The Merchants Bank of Canada.....	March 20, 1922
	The Molsons Bank.....	Jan. 20, 1925
The Canadian Bank of Commerce.	The Gore Bank.....	May 19, 1870
	The Bank of British Columbia.....	Dec. 31, 1900
	Halifax Banking Co.....	May 30, 1903
	The Merchants Bank of Prince Edward Island.....	May 31, 1906
	Eastern Townships Bank.....	Feb. 29, 1912
	Bank of Hamilton.....	Dec. 31, 1923
	The Standard Bank of Canada.....	Nov. 3, 1928
The Bank of Nova Scotia.....	Union Bank of Prince Edward Island.....	Oct. 1, 1883
	The Bank of New Brunswick.....	Feb. 15, 1913
	The Metropolitan Bank.....	Nov. 14, 1914
	The Bank of Ottawa.....	April 30, 1919
The Royal Bank of Canada.....	The Union Bank of Halifax.....	Nov. 1, 1910
	The Traders Bank of Canada.....	Sept. 3, 1912
	The Quebec Bank.....	Jan. 2, 1917
	The Northern Crown Bank.....	July 2, 1918
	Union Bank of Canada.....	Aug. 31, 1925
Imperial Bank of Canada.....	Niagara District Bank.....	June 21, 1875
	The Weyburn Security Bank.....	May 1, 1931
Banque d'Hochelaga ³	La Banque Nationale.....	April 30, 1924
The Bank of New Brunswick....	The Summerside Bank.....	Sept. 12, 1901
The Merchants Bank of Canada...	The Merchants Bank.....	Feb. 22, 1868
	Commercial Bank of Canada.....	June 1, 1868
Union Bank of Halifax.....	Commercial Bank of Windsor.....	Oct. 31, 1902
The Northern Crown Bank.....	The Northern Bank.....	July 2, 1908
	The Crown Bank of Canada.....	July 2, 1908
Union Bank of Canada.....	United Empire Bank.....	March 31, 1911
The Home Bank of Canada.....	La Banque Internationale du Canada.....	April 15, 1913
The Standard Bank of Canada....	Western Bank of Canada.....	Feb. 13, 1909
	The Sterling Bank of Canada.....	Dec. 31, 1924

¹ The purchasing banks named in the latter part of the table are no longer in business.² Dates given since 1900 are those of the Orders in Council authorizing the absorptions.³ Banque d'Hochelaga after absorbing La Banque Nationale adopted the name Banque Canadienne Nationale.

RETURN SHOWING INFORMATION REGARDING CHARTERED BANKS

Name of Bank and Chief Office	Number of Branches when operations ceased	Date of Charter	Date of Suspension or cessation of normal operations	Capital Stock at Date of Suspension		
				Authorized	Subscribed	Paid-up
1. Commercial Bank of N.B., St. John, N.B.	19	Incorporated 1834 in N.B.	— 1868	.....	600,000	600,000
2. Bank of Acadia, Liverpool, N.S.....	1	June 14, 1872	April 1873	.....	500,000	100,000
3. Metropolitan Bank of Montreal.....	1	April 14, 1871	Oct. 1876	1,000,000	1,000,000	800,170
4. Mechanics Bank, Montreal.....	2	Before Confederation.	May 1879	1,000,000	243,374	194,794
5. Bank of Liverpool, Liverpool, N.S...	1	April 14, 1871	Oct. 1879	500,000	500,000	370,548
6. The Consolidated Bank of Canada (City Bank and Royal Canadian amalgamated 1875).	16	Sept. 18, 1875	Aug. 1879	2,400,000	2,091,900	2,080,920
7. Stadacona Bank, Quebec.....	1	June 14, 1872	July 1879 (Voluntary)	1,000,000	1,000,000	991,890
8. Bank of Prince Edward Island, Charlottetown, P.E.I.	1	Local	Nov. 28, 1881	.....	.....	120,000
9. Exchange Bank of Canada, Montreal.	5	April 14, 1871	Sept. 1883	500,000	500,000	500,000
10. The Maritime Bank of Dominion of Canada, St. John, N.B.	2	June 14, 1872	Mar. 1887	2,000,000	321,900	321,900
11. Pictou Bank, Pictou, N.S.....	4	May 23, 1873	Sept. 1887 (Voluntary)	500,000	500,000	200,000
12. Bank of London in Canada, London, Ont.	3	May 25, 1883	Aug. 1887 (Voluntary)	1,000,000	1,000,000	241,101
13. The Central Bank of Canada, Toronto, Ont.	4	May 25, 1883	Nov. 1887	1,000,000	500,000	500,000
14. Federal Bank of Canada, Toronto, Ont. (Changed from "Superior Bank of Canada").	11	May 26, 1874	Jan. 1888 (Voluntary)	1,250,000	1,250,000	1,250,000
15. Commercial Bank of Manitoba, Winnipeg.	10	April 19, 1884	June 30, 1893	2,000,000	740,700	552,650
16. La Banque du Peuple, Montreal.....	7	June 27, 1844	July 15, 1895	1,200,000	1,200,000	1,200,000
17. La Banque Ville Marie, Montreal....	19	June 14, 1872	July 25, 1899	500,000	500,000	479,620
18. Bank of Yarmouth, Yarmouth, N.S.	1	April 15, 1859	Mar. 6, 1905	300,000	300,000	300,000
19. Ontario Bank, Toronto.....	30	May 27, 1857	Oct. 13, 1906	1,500,000	1,500,000	1,500,000
20. The Sovereign Bank of Canada, Toronto.	85	May 23, 1901	Jan. 18, 1908	3,000,000	3,000,000	3,000,000
21. La Banque de St. Jean, St. Jean, P.Q.	5	May 3, 1873	April 28, 1908	1,000,000	500,000	316,386
22. La Banque de St. Hyacinthe, St. Hyacinthe, P.Q.	6	May 23, 1873	June 24, 1908 (Voluntary)	1,000,000	504,600	331,235
23. The St. Stephens Bank, St. Stephen, N.B.	1	About 1836	Mar. 10, 1910	200,000	200,000	200,000
24. The Farmers Bank of Canada, Toronto.	27	July 18, 1904	Dec. 19, 1910	1,000,000	584,500	567,579
25. The Bank of Vancouver, Vancouver..	10	April 3, 1908	Dec. 14, 1914	2,000,000	587,400	445,188
26. The Home Bank of Canada, Toronto.	68	July 10, 1903	Aug. 17, 1923	5,000,000	2,000,000	1,960,591
	340					

No. 5

THAT HAVE GONE INTO LIQUIDATION SINCE 1867

Reserve Fund	Rate of Dividend last declared	Note Circulation	Deposits	Liabilities at date of Suspension or nearest date of record	Assets as per Returns at date of Suspension or nearest date of record	Paid to		Approximate actual or estimated loss to Depositors and Noteholders
						Note-holders	De-positors	
\$	%	\$	\$	\$	\$	%	%	\$
			304,368	671,420	1,222,454	100	100	
			17,959	106,914	213,346			100,000
		40,447	129,731	293,379	779,225	100	100	
		168,132	253,546	547,238	721,155	57½	57½	180,000
		3,668	86,263	136,480	207,877	100	96½	3,000
		423,819	1,013,934	1,794,249	3,077,202	100	100	
		152,481	188,372	341,500	1,355,675	100	100	
45,000		264,000	463,000	1,108,000	953,244	59½	59½	295,000
300,000	8	467,385	2,206,377	2,868,884	3,779,493	100	66½	742,000
60,000	6	314,288	1,091,570	1,409,482	1,825,993	100	10½	975,000
Nil	Nil	49,571	17,474	74,364	277,017	100	100	
50,000	7	209,045	680,954	1,031,280	1,310,675	100	100	
45,000	6	492,855	2,125,040	2,631,378	3,231,518	100	99½	7,000
150,000	6	670,492	1,005,446	3,449,499	4,869,113	100	100	
50,000	6	396,890	771,456	1,341,251	1,951,151	100	100	
600,000	7	818,648	6,874,217	7,761,209	9,533,537	100	75½	1,702,000
10,000	6	261,870	1,504,665	1,766,841	2,267,516	100	17½	1,242,000
35,000	5	50,409	276,505	388,660	723,660	100	100	
700,000	7	1,351,402	12,656,034	15,272,271	15,920,307	100	100	
Nil	6	1,988,585	11,215,506	16,174,408	19,218,746	100	100	
10,000	4	219,334	340,004	560,781	326,118	100	30-27	237,000
75,000	6	253,860	918,770	1,172,630	1,576,443	100	100	
55,000	6	149,935	386,160	549,830	818,271	100	100	
Nil	4	429,470	1,314,016	1,997,041	2,616,683	100	Nil	1,314,000
		254,762	555,352	912,137	1,532,786	100	7½	317,000
								7,114,000
550,000	7	1,724,165	15,462,569	18,356,373	15,848,400 (Curator's summary)	100	(See footnote).	

Bank of Acadia

This bank was only in existence three months and twenty-six days. It re-opened for a few days and redeemed a few thousands of its notes. This lasted only a day or two, and the remaining noteholders with the exception of the Government got nothing. The Dominion Government received 25 cents on the dollar on several thousand dollars worth of the notes which it held.

Ontario Bank

This bank did not suspend payment, but when difficulties were encountered an arrangement was made whereby all liabilities were taken over by the Bank of Montreal, which with certain other banks assumed responsibility for any loss which might result after realization of assets and double liability of shareholders. Depositors and other creditors accordingly experienced neither loss nor delay. By Winding-up Order of September 29, 1908, the bank was placed in liquidation and shareholders proceeded against for double liability, in respect of which \$1,202,510 was collected but \$601,534 of that amount subsequently returned. Winding-up proceedings terminated in January, 1918.

The Sovereign Bank of Canada

This bank did not suspend payment. By agreement, certain other banks took over its various branches and assumed all of its liabilities; accordingly depositors and other creditors experienced neither loss nor delay. In 1911, when the assisting banks threatened to place the bank in liquidation for the purpose of enforcing payment of double liability of shareholders, a corporation named International Assets Limited was formed, which assumed all liabilities to the assisting banks and took over the assets of the Sovereign Bank, upon which bonds were issued to the assisting banks for the amount owing them. Numerous shareholders of the Sovereign Bank subscribed to preference shares in the corporation and to the extent that they did so were released from their double liability on shares of the Sovereign Bank; as a result in excess of \$2,000,000 was collected and paid over to the assisting banks. On January 27, 1914, after it became apparent that a number of shareholders would not subscribe, or pay their double liability voluntarily, the Sovereign Bank (at a time when International Assets Limited was its sole creditor) was placed in liquidation. All amounts collected by the liquidator from the double liability of the shareholders were applied in reduction of the claims of the assisting banks, but were insufficient to meet these claims in full and in due course the winding-up proceedings were terminated.

The St. Stephens Bank

In addition to realization of general assets, the President of the bank advanced sufficient to permit of all liabilities being paid in full without resort to the double liability of the shareholders.

The Farmers Bank of Canada

A Royal Commission inquired into the failure of this bank in 1912 and its report, together with the evidence adduced at the inquiry, are matters of public record.

The Bank of Vancouver

As indicated, the liability to note-holders has been fully provided for. A preferred claim of the Province of British Columbia for approximately \$103,000 was settled for \$65,000 subject to the proviso that the Province might rank with ordinary creditors for the balance if or when such creditors had received a dividend of 25%. The assets, however, realized only sufficient to pay a first and final dividend to depositors and other ordinary creditors of 7½%, and after allowing for set-offs, etc., the liquidator estimated the loss to such creditors at \$279,000 plus the loss to the Province of British Columbia of \$38,000, or a total of \$317,000.

The Home Bank of Canada

An interim dividend of 25% was paid by the liquidator in December, 1923, and it was then hoped that by conserving the assets a further distribution of possibly 10 to 12% might be made eventually. Depressed conditions and other unfavourable developments affected the process of liquidation, however, and it is not anticipated that any further dividend will be available to the depositors and other ordinary creditors. There is still a balance of approximately \$200,000 owing to the Province of Ontario in respect of its preferred claim.

The Government of Canada, pursuant to investigation by a Royal Commission into the responsibility for and causes of the failure, granted relief to the extent of 35% of the claims of certain classes of creditors, namely all those individuals with claims of less than \$500 as well as those with larger claims who were found upon due inquiry to be in special need or straitened circumstances as a result of the failure. This involved a total outlay of approximately \$3,460,000.

The amount of double liability actually collected from shareholders of the banks which latterly became insolvent was as follows:

Bank of Yarmouth.....	\$ 264,667
Ontario Bank.....	1,202,510
*The Sovereign Bank of Canada.....	180,325
†La Banque de St. Jean.....	161,975
La Banque de St. Hyacinthe.....	156,051
The Farmers Bank of Canada.....	314,830
‡The Bank of Vancouver.....	178,111
†The Home Bank of Canada.....	1,195,553

* Apart from amount paid up for subscription to shares of International Assets Limited—see Sovereign Bank note.

† This includes approximately \$7,000 collected on unpaid capital stock subscriptions.

‡ Includes interest.

General

No bank that has failed since 1895 has paid anything to shareholders in respect of their capital investment. There is no reliable information as to earlier dates.

Information is not available from which to compute losses with respect to liabilities other than deposits and circulation. In some instances these liabilities would include liabilities to Governments (having preference) and to banks and others.

Noteholders have experienced no losses whatever since the inauguration of the Bank Circulation Redemption Fund in 1890. All note-holders of banks placed in liquidation between 1881 and 1890 were paid in full in respect of claims duly filed and allowed in the liquidation proceedings, but such notes as may have remained outstanding when the winding-up proceedings were completed are now of no value.

OFFICE OF THE INSPECTOR-GENERAL OF BANKS,
DEPARTMENT OF FINANCE,

OTTAWA, February 15, 1944

EXHIBIT No. 6

PAID-UP CAPITAL AND RESERVE FUND OF INDIVIDUAL CHARTERED BANKS AS OF
31st DECEMBER, 1943

Paid-up Capital	Amount thereof paid up in cash	Amount thereof issued to shareholders of purchased banks as consideration of purchase
	\$	\$
Bank of Montreal.....	24,608,300	11,391,700
The Bank of Nova Scotia.....	7,185,700	4,814,300
The Bank of Toronto.....	6,000,000	
La Banque Provinciale du Canada.....	4,000,000	
The Canadian Bank of Commerce.....	14,031,496	15,968,504
The Royal Bank of Canada.....	24,440,000	10,560,000
The Dominion Bank.....	7,000,000	
Banque Canadienne Nationale.....	5,500,000	1,500,000
Imperial Bank of Canada.....	6,725,800	274,200
Barclays Bank (Canada).....	1,500,000	
	100,991,296	44,508,704
	44,508,704	
Total Paid-up Capital.....	145,500,000	

Reserve Fund	Amount thereof from cash premiums on stock issues	Amount thereof set aside from profits	× Amount thereof, if any, added in connection with purchase of assets of other banks
	\$	\$	\$
Bank of Montreal.....	11,798,167	17,961,208	9,240,625
The Bank of Nova Scotia.....	9,080,520	6,381,473	8,538,006
The Bank of Toronto.....	4,074,836	7,925,164	
The Provincial Bank of Canada.....	300,000	1,200,000	
The Canadian Bank of Commerce.....	7,888,048	11,106,146	11,005,804
The Royal Bank of Canada.....	20,402,069	4,626,230	9,971,700
The Dominion Bank.....	5,900,000	3,100,000	
Banque Canadienne Nationale.....	2,159,450	3,340,550	1,500,000
Imperial Bank of Canada.....	5,181,227	2,818,773	
Barclays Bank (Canada).....	750,000		
	67,534,317	58,459,544	40,256,135
	58,459,544		
(Cents omitted from foregoing figures).....	40,256,135		
	4		
	166,250,000		
Less reductions in reserve funds of the following banks in 1933 for the purpose of restoring inner reserves, namely:			
Provincial.....	\$ 500,000		
Commerce.....	10,000,000		
Royal.....	15,000,000		
Dominion.....	2,000,000		
Banque Can. Nationale.....	2,000,000		
	29,500,000		
Total Reserve Funds.....	136,750,000		

× The figures shown in this column also include certain cash premiums on stock issues of merged banks but the amount is in no case readily ascertainable. In any event, the figures shown result from the basis upon which mergers were effected and from a complete revaluation of the assets of the banks purchased.

EXHIBIT No. 7

PARTICULARS OF INCREASES IN CAPITAL STOCK OF THE CHARTERED BANKS FROM JULY 1, 1923 TO DECEMBER 31, 1943.

Bank	Date of allotment	Amount of increase (par value)	Issue price per share	Disposition of amount of issue price in excess of par value	Remarks
Bank of Montreal.....	Jan. 25, 1925	\$ 2,666,700	\$ .....	.....	Issued to shareholders of the Molsons Bank in connection with the acquisition of the business of that bank, in the proportion of two shares of Montreal for three of Molsons plus a cash payment of \$10 per each share of the Molsons Bank.
Bank of Montreal.....	Feb. 9, 1929	6,083,300	200	Transferred to the credit of published Rest or Reserve Fund.	
The Bank of Nova Scotia.....	Dec. 31, 1929	2,000,000	250	Transferred to the credit of published Rest or Reserve Fund.	
The Bank of Toronto.	Dec. 1, 1928	1,000,000	200	Transferred to the credit of published Rest or Reserve Fund.	
La Banque Provinciale du Canada...	Apr. 30, 1926	1,000,000	120	Transferred to the credit of published Undivided Profits (or surplus) Account.	
The Canadian Bank of Commerce...	Jan. 2, 1924	5,000,000	.....	.....	Issued to shareholders of the Bank of Hamilton in connection with the acquisition of the business of that bank on a share for share basis.
The Canadian Bank of Commerce...	Nov. 7, 1928	4,823,400	.....	.....	Issued to shareholders of The Standard Bank of Canada in connection with the acquisition of the business of that bank on a share for share basis.

The Canadian Bank of Commerce...	Mar. 28, 1929	5, 176, 600	200	Transferred to the credit of published Rest or Reserve Fund.	Issued to shareholders of the Union Bank of Canada in connection with the acquisition of the business of that bank in the proportion of one share for two.
The Royal Bank of Canada.....	Sept. 1, 1925	4, 000, 000			
The Royal Bank of Canada.....	Dec. 11, 1926	5, 600, 000	200	Transferred to the credit of published Rest or Reserve Fund.	
The Royal Bank of Canada.....	Nov. 28, 1928	5, 000, 000	200	Transferred to the credit of published Rest or Reserve Fund.	
The Dominion Bank.....	Dec. 31, 1928	1, 000, 000	200	Transferred to the credit of published Rest or Reserve Fund.	Issued to shareholders of The Sterling Bank of Canada in connection with the acquisition of the business of that bank in the proportion of two shares for three.
The Standard Bank of Canada.....	Dec. 31, 1924	823, 400			
Banque Canadienne Nationale..... (formerly Banque d'Hochebaga)	May 1, 1924	1, 500, 000			Issued to shareholders of La Banque Nationale in connection with the acquisition of the business of that bank in the proportion of one share for two.
Banque Canadienne Nationale.....	Jan. 15, 1929	1, 500, 000	160	Transferred to the credit of published Rest or Reserve Fund.	
Barelays Bank (Canada).....	Aug. 11, 1934	1, 000, 000	125	Transferred to the credit of published Rest or Reserve Fund.	
		48, 173, 400			

NOTE.—Any surplus received (over and above the rate per share at which allotments were made) from the sale of shares not taken up by shareholders to whom they were allotted, or resulting from the non-allotment of fractions, was either distributed to the shareholders entitled thereto or accrued to the benefit of shareholders as a whole by being credited to general reserves or undivided profits.

EXHIBIT No. 8

ALLOCATION OF SHAREHOLDERS AND SHARES OF CHARTERED BANKS
BY COUNTRIES AS AT DECEMBER 31, 1943

	Shareholders	Shares
Canada	36,534	989,736
Elsewhere in British Empire	8,931	278,367
U.S. and Possessions	4,855	154,336
Other	426	17,892
In control Custodian Enemy Property.....	444	14,669
Total	<u>51,190</u>	<u>1,455,000</u>

EXHIBIT No. 9

Number of shareholders with holdings of:—	Number of Shareholders	Percentage of Total	Aggregate Number of Shares	Percentage of Total
(a) 25 shares and less	40,457	79.03	354,998	24.40
(b) over 25 shares to 100 shares..	8,554	16.71	444,420	30.55
(c) " 100 " " 300 " ..	1,708	3.34	286,835	19.71
(d) " 300 " " 500 " ..	247	0.48	99,398	6.83
(e) " 500 shares	224	0.44	269,349	18.51
Total	<u>51,190</u>	<u>100.00</u>	<u>1,455,000</u>	<u>100.00</u>
Average number of shares held				28.42
Total number of shares held by 176 directors.....				25,953
Average number of shares held by directors.....				147.46

EXHIBIT No. 10

CHANGES IN RATES OF DIVIDEND PAID BY THE CANADIAN CHARTERED BANKS
DURING THE FIFTEEN YEARS ENDED DECEMBER 31, 1943

(Beginning with Rates paid for the Fiscal Years ended in 1929)

		Dividend (per annum)	Bonus (per annum)
		per cent	per cent
Bank of Montreal—			
	1929.....	12	2
	1931.....	12	
July	1932.....	10	
April	1933.....	8	
October	1942.....	6	
The Bank of Nova Scotia—			
	1929.....	16	
August	1932.....	14	
May	1933.....	12	
October	1942.....	10	
The Bank of Toronto—			
	1929.....	12	1
	1931.....	12	
August	1932.....	10	
La Banque Provinciale du Canada—			
	1929.....	9	
October	1932.....	8	
January	1933.....	7	
April	1933.....	6	
October	1942.....	5	
The Canadian Bank of Commerce—			
	1929.....	12	1
	1931.....	12	
July	1932.....	10	
April	1933.....	8	
September	1942.....	6	
The Royal Bank of Canada—			
	1929.....	12	2
	1931.....	12	
July	1932.....	10	
April	1933.....	8	
October	1942.....	6	
The Dominion Bank—			
	1929.....	12	1
	1931.....	12	
August	1932.....	10	
September	1942.....	8	
Banque Canadienne Nationale—			
	1929.....	10	
July	1934.....	8	
October	1942.....	6	
Imperial Bank of Canada—			
	1929.....	12	1
	1931.....	12	
September	1932.....	10	
September	1942.....	8	
Barclays Bank (Canada).....		Nil	Nil

EXHIBIT No. 11

AVERAGE INTEREST AND DISCOUNT RATES

Charged by Chartered Banks on Loans or Advances in Canada during the calendar years 1935-43 inclusive, according to half-yearly returns made to the Minister of Finance under Section 91 (2) of The Bank Act.

On any advance or loan to or guaranteed by the Dominion or provincial governments		Average interest	Average discount
		%	%
	1935	4.38	4.68
	1936	4.35	4.70
	1937	3.93	4.47
	1938	3.58	4.70
	1939	3.40	4.56
	1940	3.37	4.66
	1941	3.17	5.13
	1942	3.16	5.17
	1943	3.24	4.93
On any advance or loan to or guaranteed by cities, towns, municipalities and school districts.....		Average interest	Average discount
		%	%
	1935	4.42	4.95
	1936	4.35	5.12
	1937	4.15	4.76
	1938	3.92	4.68
	1939	3.90	4.31
	1940	3.88	4.14
	1941	4.08	4.44
	1942	3.95	4.54
	1943	3.96	4.50
On any call and short loan to brokers or bond dealers.....		Average interest	Average discount
		%	%
	1935	5.17	4.64
	1936	4.54	5.50
	1937	4.49	5.73
	1938	4.48	5.34
	1939	4.47	5.52
	1940	4.47	5.65
	1941	4.41	5.23
	1942	4.35	5.12
	1943	4.20	5.39
On any advance or loan other than the foregoing		Average interest	Average discount
		%	%
	1935	5.65	6.21
	1936	5.28	6.04
	1937	5.11	5.90
	1938	5.09	5.87
	1939	4.97	5.80
	1940	4.79	5.70
	1941	4.69	5.57
	1942	4.59	5.47
	1943	4.43	5.38
On the whole amount of all loans and advances mentioned above made in Canada.....		Average interest	Average discount
		%	%
	1935	5.28	6.08
	1936	4.92	5.91
	1937	4.89	5.81
	1938	4.76	5.77
	1939	4.58	5.66
	1940	4.49	5.58
	1941	4.43	5.49
	1942	4.33	5.38
	1943	4.28	5.28

N.B. -Percentages quoted represent simple, not weighted, averages.

EXHIBIT No. 12

CHANGES IN RATE OF INTEREST ALLOWED BY CHARTERED BANKS
ON SAVINGS ACCOUNTS

From January, 1924, to December 31st, 1943

January, 1924	3% per annum on minimum monthly balance, in effect for many years, and added to accounts half-yearly.
May 1, 1933.....	From 3% to 2½%.
November 1, 1934.....	From 2½% to 2%.
June 1, 1935.....	2% on accounts of individuals and religious or charitable institutions; 1% on commercial funds, unless on deposit receipt for over 90 days, then 1½%.
January 1, 1936.....	2% to individuals and religious or charitable institutions; 1% on commercial funds.
June 1, 1936.....	1½% to individuals and religious or charitable institutions; ½ of 1% on commercial funds.
March 1, 1939.....	Interest on minimum <i>quarterly</i> balance basis instead of minimum <i>monthly</i> , but continues to be added to accounts half-yearly.

NOTE.—*The Quebec Savings Banks* (The Montreal City & District Savings Bank and La Caisse d'Economie de Notre Dame de Québec) also reduced rates along similar lines in the earlier years quoted above to a 2% base on most accounts, and to some extent below that level—particularly on larger or special deposits and deposits of new clients. These banks also now calculate interest on the minimum *quarterly* balance, but continue to add it to accounts half-yearly.

The Post Office Savings Banks likewise reduced the interest rate gradually to 2%, which is the present rate; it is added to accounts annually but not calculated on any minimum balance basis.

EXHIBIT No. 13

LOANS, ACCORDING TO CLASS, MADE BY CHARTERED BANKS IN CANADA AND OUTSTANDING AT OCT 31, 1934-43

Class of Loan	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943
Provincial governments.....	26,822,179	29,651,382	14,711,533	26,384,534	22,847,911	18,454,687	14,582,247	8,935,772	4,511,686	5,322,470
Municipal government and school district	107,414,453	96,777,122	91,982,383	94,187,869	114,507,701	112,105,925	99,582,464	78,092,402	66,335,199	48,006,438
Agricultural—										
(a) Loans to farmers, cattlemen, fruit growers.....	64,229,744	59,949,953	53,959,805	57,490,784	56,802,780	56,980,203	53,164,246	47,864,721	46,491,072	49,829,005
(b) Loans to grain dealers, grain exporters and seed merchants.....	150,515,305	166,441,828	64,528,319	30,893,892	91,651,082	211,387,592	235,931,252	292,420,070	293,627,401	245,923,181
Totals, Agricultural.....	214,745,049	226,391,781	118,487,924	88,294,676	148,453,862	268,367,725	289,065,498	340,285,391	240,118,473	295,752,276
Financial—										
(a) Call loans and other accommodation to brokers and bond dealers.....	90,748,241	66,697,883	97,376,547	73,531,185	62,401,107	51,749,848	39,865,634	37,741,019	26,833,719	39,447,194
(b) Loans to trust, loan, mortgage, investment and insurance companies and other financial institutions.....	69,956,745	63,132,592	73,830,397	68,966,413	66,906,329	58,817,049	65,264,177	68,281,153	37,329,987	27,089,437
(c) Loans to individuals against approved stocks and bonds not otherwise classified.....	115,192,444	101,183,396	111,462,635	142,798,237	120,450,926	109,409,126	102,154,182	108,113,329	83,679,313	100,024,759
Totals, Financial.....	275,897,430	231,013,871	282,669,579	285,295,895	249,758,362	219,976,623	207,283,993	214,135,501	147,843,019	166,561,390
Merchandising, wholesale and retail.....	117,468,420	113,767,896	115,889,919	129,635,451	133,652,188	133,977,633	139,079,850	155,563,812	123,145,162	100,044,572
Manufacturing—dealers in lumber, pulp-wood and products thereof.....	74,283,150	72,974,075	64,850,267	62,949,545	75,176,990	56,947,765	45,689,853	44,409,667	41,614,778	43,425,045
Other manufacturing of all descriptions.....	146,125,189	119,200,354	129,962,242	156,555,520	138,380,018	135,656,465	197,978,242	245,033,193	213,903,129	289,377,198
Mining.....	6,621,121	6,812,425	6,898,818	6,109,791	8,904,144	6,419,591	5,686,135	7,131,169	8,879,638	9,367,090
Fishing, including packers and curers of fish.....	6,965,205	7,207,205	8,193,886	7,709,453	8,683,300	7,017,102	7,296,896	10,707,580	9,647,867	8,314,336
Public utility, including transportation companies.....	71,358,370	71,265,693	8,387,018	11,948,007	24,923,530	36,322,931	22,482,165	19,881,473	14,301,741	13,392,406
Loans to contractors and others for building and construction purposes.....	21,792,645	24,125,443	23,719,245	33,579,276	39,248,172	45,772,468	52,125,610	50,446,823	49,380,883	45,505,354
Loans to churches, parishes, and hospitals and charitable, religious and educational institutions.....	19,683,072	16,101,300	14,797,993	16,408,806	19,359,989	19,034,041	17,544,150	16,523,008	10,420,679	7,692,424
Other.....	66,532,517	52,320,478	52,986,222	61,567,831	74,691,584	83,338,328	86,335,166	83,978,387	76,185,536	74,424,403
Grand Totals.....	1,149,708,830	1,067,609,625	933,537,049	980,626,624	1,055,587,811	1,143,451,284	1,184,762,269	1,275,124,388	1,106,327,790	1,077,786,092

EXHIBIT No. 14

DEPOSITS, ACCORDING TO SIZE, IN CHARTERED BANKS IN CANADA, AS AT OCTOBER 31, 1934-43.

Class and Amount of Deposits—	1934		1935		1936		1937		1938	
	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$
<i>Deposits Payable on Demand—</i>										
\$1,000 or less.....	580,929	71,700,883	574,323	76,008,059	580,008	81,662,728	596,830	84,938,517	604,490	88,127,361
\$1,000 to \$5,000.....	35,259	72,266,442	39,294	80,086,361	43,622	89,701,847	47,438	97,755,972	50,094	102,443,022
\$5,000 to \$25,000.....	8,633	88,673,885	9,355	95,421,344	10,469	108,384,569	11,416	114,786,855	11,991	121,542,883
\$25,000 to \$100,000.....	1,877	87,501,586	2,126	96,676,371	2,328	107,745,625	3,542	115,483,832	2,708	125,413,101
Over \$100,000.....	599	218,330,681	752	271,030,681	697	270,808,927	765	264,111,589	861	306,077,873
Adjustment items ¹		3,890,269		2,713,508		—,3,021,920		—2,048,380		5,752,550
Totals.....	627,297	542,443,755	625,800	624,936,324	637,124	664,281,667	659,991	679,125,145	670,144	749,356,790
<i>Deposits Payable After Notice—</i>										
\$1,000 or less.....	3,765,971	416,528,692	3,716,326	425,873,551	3,664,756	432,501,930	3,770,692	456,017,245	3,797,481	452,808,233
\$1,000 to \$5,000.....	246,057	465,695,559	263,449	518,525,239	268,325	557,147,512	274,810	551,364,607	284,243	571,677,434
\$5,000 to \$25,000.....	28,896	299,559,678	32,460	280,898,088	34,224	297,615,548	36,343	315,602,966	38,077	330,974,095
\$25,000 to \$100,000.....	1,853	82,550,359	2,476	99,785,473	2,313	99,078,550	2,371	103,622,340	2,541	111,892,640
Over \$100,000.....	390	131,626,199	471	136,199,058	496	141,338,693	536	154,100,491	621	185,235,546
Adjustment items ¹		4,188,088		4,290,265		2,637,199		2,987,072		3,204,167
Totals.....	4,043,167	1,370,178,575	4,014,932	1,465,571,674	3,970,314	1,510,319,432	4,084,752	1,583,694,721	4,122,963	1,655,782,105
<i>Class and Amount of Deposits—</i>										
Class and Amount of Deposits—	1939		1940		1941		1942		1943	
	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$
<i>Deposits Payable on Demand—</i>										
\$1,000 or less.....	614,045	89,018,095	616,663	96,502,324	618,725	105,237,928	616,523	118,509,080	611,926	132,748,397
\$1,000 to \$5,000.....	53,088	129,226,473	57,794	136,723,414	64,727	136,338,172	72,200	163,465,988	94,266	201,974,379
\$5,000 to \$25,000.....	13,020	132,306,262	14,253	145,793,242	16,220	174,201,039	19,935	201,724,861	23,017	232,239,369
\$25,000 to \$100,000.....	3,016	142,430,231	3,234	149,430,231	3,711	177,723,766	4,463	213,588,900	5,119	240,236,740
Over \$100,000.....	947	347,237,352	1,084	427,755,840	1,334	550,893,763	1,706	846,994,194	2,005	953,358,176
Adjustment items ¹		7,825,055		—,614,371		1,544,991		16,175,626		15,900,399
Totals.....	684,119	821,717,082	693,163	941,278,750	704,777	1,135,522,559	719,847	1,609,058,659	738,333	1,826,837,690
<i>Deposits Payable after Notice—</i>										
\$1,000 or less.....	3,828,291	454,885,624	3,846,137	461,153,415	3,951,585	496,309,650	4,055,018	594,638,313	4,280,439	617,260,480
\$1,000 to \$5,000.....	290,222	558,216,921	318,806	537,276,550	364,641	522,313,498	280,596	548,800,570	271,132,745	671,132,745
\$5,000 to \$25,000.....	40,001	348,869,597	34,672	299,135,942	31,267	272,538,827	31,245	271,440,057	35,798	308,898,136
\$25,000 to \$100,000.....	2,757	123,339,760	2,433	105,740,135	2,270	99,623,904	2,220	98,922,505	2,420	105,430,382
Over \$100,000.....	2,626	190,117,190	555	190,679,009	615	195,557,118	661	247,760,014	666	250,758,990
Adjustment items ¹		3,746,682		5,448,460		5,557,082		7,181,546		7,680,213
Totals.....	4,161,897	1,709,156,774	4,132,633	1,599,463,511	4,250,378	1,591,700,079	4,369,740	1,708,733,005	4,662,113	1,961,160,946

¹ Representing drafts issued, certified cheques, items in transit, etc.

EXHIBIT No. 15

LIST OF SHAREHOLDERS' AUDITORS OF THE CHARTERED BANKS—1944

Bank	Names of Auditors	End of fiscal year
Bank of Montreal.....	GEORGE C. McDONALD, C.A..... (of McDonald, Currie & Co.) *JOHN PATERSON, C.A. (of Riddell, Stead, Graham & Hutchison)	October 31
The Bank of Nova Scotia.....	D. MCK. McCLELLAND, F.C.A..... (of Price, Waterhouse & Co.) A. B. SHEPHERD, F.C.A. (of Peat, Marwick, Mitchell & Co.)	October 31
The Bank of Toronto.....	G. T. CLARKSON, F.C.A..... (of Clarkson, Gordon, Dilworth & Nash) W. D. GLENDINNING, F.C.A. (of Glendinning, Gray & Roberts)	November 30
The Provincial Bank of Canada.....	J. C. ANDERSON, L.I.A..... (of Anderson & Valiquette) JEAN PAUL GAUTHIER, C.A. (of Chartre, Samson, Beauvais, Gauthier & Co.)	November 30
The Canadian Bank of Commerce.....	A. B. SHEPHERD, F.C.A. (of Peat, Marwick, Mitchell & Co.) G. T. CLARKSON, F.C.A. (of Clarkson, Gordon, Dilworth & Nash)	October 31
The Royal Bank of Canada...	M. OGDEN HASKELL, C.A..... (of Haskell, Elderkin & Co.) GUY E. HOULT, C.A. (of P. S. Ross & Sons)	November 30
The Dominion Bank.....	A. B. SHEPHERD, F.C.A..... (of Peat, Marwick, Mitchell & Co.) W. D. GLENDINNING, F.C.A. (of Glendinning, Gray & Roberts)	October 31
Banque Canadienne Nationale	MAURICE CHARTRE, C.A..... (of Chartre, Samson, Beauvais, Gauthier & Co.) A. BALLANTYNE, C.A. (of Peat, Marwick, Mitchell & Co.)	November 30
Imperial Bank of Canada.....	A. B. SHEPHERD, F.C.A..... (of Peat, Marwick, Mitchell & Co.) W. D. GLENDINNING, F.C.A. (of Glendinning, Gray & Roberts)	October 31
Barclays Bank (Canada).....	DAVID YOUNG, C.A..... (of Price, Waterhouse & Co.) K. W. DALGLISH, C.A. (of Deloitte, Plender, Griffiths & Co.)	September 30

* Appointed by Minister of Finance, February 17, 1944, under the authority of Section 55(6) of the Bank Act to succeed A. A. GOWAN, deceased

EXHIBIT No. 16

(a)

TOTAL NET PROFITS, PRINCIPAL TAXES, DIVIDENDS, ETC., OF THE CHARTERED BANKS FOR THE FISCAL YEARS ENDED IN
1930-43 INCLUSIVE

(Cents omitted)

	I	II	III	IV	V	VI	VII	Dividends Paid
	Net profits after published pro- vision for prin- cipal taxes shown in column II but before appro- priations for bank premises, pension funds, etc., shown in column III	Published provision for principal taxes (see explanatory (note)	Appropri- ations for bank premises, pension funds or other published allocations	Per cent of net profits (column I) to capital paid up	Per cent of net profits (column I) allowance for appropri- ations, etc., (column III) to capital paid up	Per cent of net profits (column I) to total shareholders' money, viz., capital paid up, reserve and undivided profits	Per cent of net profits (column I) after allow- ance for appropri- ations, etc., (column III) to total shareholders' money, viz., capital paid up, reserve and undivided profits	
Annual average fiscal years ended 1930-39 inclusive	\$17,370,175	\$ 3,776,915	\$2,617,863	11-98	10-18	5-85	4-97	\$13,994,311
Fiscal years ended in:								
1940.....	16,420,602	8,209,558	3,400,414	11-29	8-95	5-66	4-49	12,320,000
1941.....	16,402,769	9,245,382	3,409,905	11-27	8-93	5-65	4-47	12,320,000
1942.....	15,694,844	10,453,697	3,430,355	10-79	8-43	5-39	4-21	11,640,000
1943.....	15,277,442	11,450,205	3,653,459	9-52	7-99	5-23	3-98	9,600,000

(b)
NET PROFITS, DOMINION TAXES
DIVIDENDS, ETC., OF EACH OF THE CHARTERED BANKS OF CANADA FOR FISCAL YEARS ENDED IN 1943
(Cents omitted)

Name of Bank	I	II	III	V	IV	VI	VII	VIII
	Net profits after published provision for dominion taxes shown in column II but before appropriations for bank premises, pension funds, etc., shown in column III	Published provision for dominion taxes	Appropriations for bank premises, pension funds or other published allocations	Per cent of net profits (column I) to capital paid up	Per cent of net profits (column I) after allowance for appropriations, etc., (column III) to capital paid up	Per cent of net profits (column I) to total shareholders' money, viz., up, reserve and undivided profits	Per cent of net profits (column I) after allowance for appropriations, etc., (column III) to total shareholders' money, viz., up, reserve and undivided profits	Dividends Paid
Montreal..... (Oct. 31)	\$3,302,834	\$2,913,194	\$500,000	9.17	7.79	4.33	3.68	\$2,160,000
Nova Scotia..... (Dec. 31)	1,717,961	1,542,489	465,000	14.32	10.44	4.61	3.36	1,200,000
Toronto..... (Nov. 30)	1,228,808	1,227,894	400,000	20.50	13.83	6.52	4.40	600,000
Provinciale..... (Nov. 30)	280,069	175,691	70,000	7.00	5.25	5.37	4.03	200,000
Commerce..... (Oct. 31)	2,777,020	2,009,519	732,685	9.26	6.81	5.46	4.02	1,800,000
Royal..... (Nov. 30)	3,426,290	2,281,953	770,000	9.79	7.59	5.88	4.56	2,100,000
Dominion..... (Oct. 31)	914,249	439,019	255,000	13.06	9.42	6.15	4.43	560,000
*Canadienne Nationale..... (Nov. 30)	681,266	318,282	205,000	9.73	6.80	5.56	3.89	420,000
Imperial..... (Oct. 31)	942,709	542,164	255,774	13.47	9.81	6.00	4.37	560,000
Barclays..... (Sept. 30)	5,286	.....	.....	.35	.35	.23	.23	.....
Total.....	\$15,277,442	\$11,450,205	\$3,653,450z	10.50	7.99	5.23	3.98	\$9,600,000

Date following each bank's name denotes end of its fiscal year.

zOf this total, \$572,487 is estimated refundable under the provisions of the Excess Profits Tax Act.

*Net profits shown in this case are also after deduction of \$125,000 statutory payment to the Province of Quebec—provincial statute 14, Geo. V, Ch. 3

The total paid in dividends was \$2,040,000 less than in the preceding fiscal years and \$3,720,000 less than in the fiscal years ended in 1941—the result of reductions in the dividend rates in 1941 by all but one of the dividend-paying banks.

(C)

MEMORANDUM: EXPLANATORY OF STATEMENTS OF NET PROFITS, TAXES, DIVIDENDS, ETC., OF THE CHARTERED BANKS FOR THE FISCAL YEARS ENDED IN 1930-43 INCLUSIVE

While the figures are compiled from the annual published statements of the banks, it should be pointed out that all banks have not issued such statements in precisely the same form, not being required to do so by the general terms of Section 53 (8) of the Bank Act. Certain of the banks formerly disclosed in their published statements provision only for Dominion note circulation and income tax (and in the case of one bank Dominion note circulation tax only), but from about 1934 to 1940 all banks, with one exception, followed the practice of showing provision for both dominion and provincial taxes in annual statements to shareholders. Since 1940 provincial taxes have not been a factor because of the Dominion-Provincial agreement on taxation. Municipal and other taxes, however, which have always totalled a substantial amount, have never been specified in annual published statements. In view of the foregoing and to provide somewhat more uniform information, net profits figures have been used after allowance for taxes in all cases; in any event this is a correct procedure.

The published allocations to pension funds, bank premises depreciation and for other purposes (which likewise vary somewhat as to method of treatment by all banks) tend to make difficult comparisons on a strictly uniform basis. Probably the best that can be achieved in this respect is to arrive at a net figure by deducting from the figures shown in column I the respective amounts shown in column III, since appropriations to write down the cost of premises, as well as contributions to pension funds, etc., are definitely provided out of earnings, and consequently decrease the amount finally available to shareholders. Particular attention is drawn to the percentage relationship of net profits (column VII) to the total of shareholders' equity or investment, namely, capital paid up, reserve and undivided profits. It is the percentages shown in this column which reflect for all practical purposes the real relationship of final net profits to total shareholders' equity or investment. The percentage of profits to capital paid up alone is necessarily a nominal or arbitrary one only (although sometimes incorrectly used as a measure of earnings) as other shareholders' funds, including premium paid on new stock issues from time to time, also go to constitute the entire capital owned and at risk by shareholders.

The percentages for the ten-year period 1930-39 in the case of several banks, namely, Provincial, Commerce, Royal, Dominion, and Canadienne Nationale, necessarily reflect reductions made in the published rest or reserve funds of these banks in 1933, for the special reasons announced at that time, and which came to the attention of the Banking and Commerce Committee of the House of Commons when the Bank Act was reviewed in 1934.

During the ten-year period 1930-39, the fiscal year-ends of two banks, namely Commerce and Dominion, were changed from November 30 to October 31 (in 1937) and December 31 to October 31 (in 1938), respectively, and while percentages have not been adjusted to reflect these particular changes, the net effect is unimportant.

The ten-year average figures of 1930-39 do not include 1930 figures for The Weyburn Security Bank, which was purchased by Imperial Bank of Canada, effective as of May 1, 1931.

EXHIBIT No. 17

ROYAL CANADIAN MINT
OTTAWA

18th MAY, 1944.

J. H. BLACKMORE, Esq., M.P.,
House of Commons,
Ottawa.

DEAR SIR.—In response to your telephone request to the Mint this morning the information regarding the value of the metal in the coins of the 50 cent, 5 cent nickel, 5 cent steel and 1 cent bronze, and the cost of minting each of these denominations is set out below:—

Denomination	For 100 pieces, 50c, 5c, and 1c		Total	Face Value
	Cost of metal	Cost of Minting		
50c silver	\$12 50	50c	\$13 00	\$50 00
5c nickel	1 12	7½c	1 19½	5 00
5c steel	39	8c	47	5 00
1c bronze	9½	17½c	27	1 00

Yours very truly,

R. J. EDMUNDS,
Superintendent.

EXHIBIT No. 18

The following changes in the Bank Act became effective as a result of the commencement of business by the Bank of Canada on March 11, 1935:—

Section 59—Subsections 1, 2 and 3 repealed.

Section 60—Subsections 3 to 18 inclusive repealed.

Section 88—The places for registration of notice of intention to give security under this section have been prescribed by the Minister, pursuant to the authority contained in subsection 19, as follows:—

The branch or agency of the Bank of Canada at the following places, namely:—

- Halifax—in and for the Province of Nova Scotia;
- Charlottetown—in and for the Province of Prince Edward Island;
- Saint John—in and for the Province of New Brunswick;
- Montreal—in and for the Province of Quebec;
- Toronto—in and for the Province of Ontario;
- Winnipeg—in and for the Province of Manitoba;
- Regina—in and for the Province of Saskatchewan;
- Calgary—in and for the Province of Alberta;
- Vancouver—in and for the Province of British Columbia.

Section 112—In accordance with the authority contained in subsection 1, Schedule H to the Act has been amended by Order in Council of March 2, 1935, and now reads as follows:

Return of the Liabilities and assets of theBank
on the.....day of....., 19 .

LIABILITIES

1. Notes in circulation.....\$
2. Deposits by and balances due to Dominion Government.....
3. Deposits by and balances due to provincial governments.....
4. Advances from Bank of Canada, secured.....
5. Deposits by the public, payable on demand, in Canada.....
6. Deposits by the public, payable after notice or on a fixed day, in Canada
7. Deposits elsewhere than in Canada.....
8. Deposits by and balances due to other chartered banks in Canada..
9. Deposits by and balances due to banks and banking correspondents in the United Kingdom.....
10. Deposits by and balances due to banks and banking correspondents elsewhere than in Canada and the United Kingdom.....
11. Loans from other chartered banks in Canada, secured, including bills rediscounted\$
12. Bills payable
13. Acceptances and letters of credit outstanding.....
14. Liabilities to the public not included under foregoing heads.....
15. Dividends declared and unpaid.....
16. Rest or Reserve Fund.....
17. Capital paid up.....

 \$

ASSETS

1. Gold held in Canada.....\$
2. Subsidiary coin held in Canada.....
3. Gold held elsewhere.....
4. Subsidiary coin held elsewhere.....
5. Notes of Bank of Canada.....
6. Deposits with Bank of Canada.....
7. Notes of other chartered banks.....
8. Government and bank notes other than Canadian.....
9. Cheques on other banks.....
10. Deposits with and balances due by other chartered banks in Canada
11. Due by banks and banking correspondents in the United Kingdom
12. Due by banks and banking correspondents elsewhere than in Canada and the United Kingdom.....
13. Loans to other chartered banks in Canada, secured, including bills rediscounted
14. Dominion and provincial government direct and guaranteed securities maturing within two years, not exceeding market value
15. Other Dominion and provincial government direct and guaranteed securities, not exceeding market value
16. Canadian municipal securities, not exceeding market value.....
17. Public securities other than Canadian, not exceeding market value..
18. Other bonds, debentures and stocks, not exceeding market value..
19. Call and short (not exceeding thirty days) loans in Canada on stocks, debentures, bonds and other securities, of a sufficient marketable value to cover.....
20. Call and short (not exceeding thirty days) loans elsewhere than in Canada on stocks, debentures, bonds and other securities, of a sufficient marketable value to cover.....
21. Current loans and discounts in Canada not otherwise included, estimated loss provided for.....

22. Current loans and discounts elsewhere than in Canada not otherwise included, estimated loss provided for.....
23. Loans to provincial governments.....
24. Loans to cities, towns, municipalities and school districts.....
25. Non-current loans, estimated loss provided for.....
26. Real estate other than bank premises.....
27. Mortgages on real estate sold by the Bank.....
28. Bank premises, at not more than cost, less amounts (if any) written off
29. Liabilities of customers under acceptances and letters of credit as per contra
30. Deposit with the Minister of Finance for the security of note circulation
31. Shares of and loans to controlled companies.....
32. Other assets not included under the foregoing heads.....

	\$
Capital authorized	\$
Capital subscribed	
Rate per annum of last dividend (and bonus, if any) declared.....	
per centum.	
Aggregate amount of loans to directors and firms of which they are partners, and loans for which they are guarantors.....	\$
Average daily amount held in notes of and deposits with Bank of Canada during the month	
Greatest amount of notes of the Bank in circulation at any time during the month	
Contingent liability on bills rediscounted with Bank of Canada.....	

Branch and Agency returns used in the preparation of the foregoing and antedating the last juridical day of the month aforesaid are as follows:

Branch or Agency.	Date of such return.
-------------------	----------------------

I declare that the above return is correct according to the books of the Bank.

E. F.,
Chief Accountant, (or Acting Chief
Accountant, as the case may be).

We declare that the foregoing return is to the best of our knowledge and belief correct, and shows truly and clearly the financial position of the Bank as required by sections 112 and 113 of The Bank Act.
(Place)..... this.....day of.....19 ..

A. B.,
President, (Vice-President, or Director
acting as President, as the case may be).
C. D.,
General Manager, (or other principal
officer, as the case may be).

Section 136. Repealed.

Section 53. In accordance with the authority contained in subsection 4, the items of the annual statement as shown in subsections 2 and 3 were amended by Order in Council of August 7, 1935, to read as follows:

LIABILITIES

- (a) capital paid up,
- (b) rest or reserve fund,

- (c) dividends declared and unpaid,
- (d) balance of profits, as per profit and loss account referred to in subsection eight of this section,
- (e) notes in circulation,
- (f) deposits by and balances due to Dominion Government,
- (g) deposits by and balances due to provincial governments,
- (h) advances from Bank of Canada, secured,
- (i) deposits by the public not bearing interest,
- (j) deposits by the public bearing interest, including interest accrued to date of statement,
- (k) deposits by and balances due to other chartered banks in Canada,
- (l) deposits by and balances due to banks and banking correspondents in the United Kingdom and foreign countries,
- (m) bills payable,
- (n) acceptances and letters of credit outstanding,
- (o) liabilities to the public not included under the foregoing heads.

ASSETS

- (a) gold held in Canada,
- (b) subsidiary coin held in Canada,
- (c) gold held elsewhere,
- (d) subsidiary coin held elsewhere,
- (e) notes of Bank of Canada,
- (f) deposits with Bank of Canada,
- (g) notes of other chartered banks,
- (h) government and bank notes other than Canadian,
- (i) cheques on other banks,
- (j) deposits with and balances due by other chartered banks in Canada,
- (k) due by banks and banking correspondents elsewhere than in Canada,
- (l) Dominion and provincial government direct and guaranteed securities maturing within two years not exceeding market value,
- (m) other Dominion and provincial government direct and guaranteed securities, not exceeding market value,
- (n) Canadian municipal securities, not exceeding market value,
- (o) public securities other than Canadian, not exceeding market value,
- (p) other bonds, debentures and stocks, not exceeding market value,
- (q) call and short (not exceeding thirty days) loans in Canada on stocks, debentures, bonds and other securities, of a sufficient marketable value to cover,
- (r) call and short (not exceeding thirty days) loans elsewhere than in Canada on stocks, debentures, bonds and other securities, of a sufficient marketable value to cover,
- (s) current loans and discounts in Canada not otherwise included, estimated loss provided for,
- (t) current loans and discounts elsewhere than in Canada not otherwise included, estimated loss provided for,
- (u) loans to provincial governments,
- (v) loans to cities, towns, municipalities and school districts,
- (w) non-current loans, estimated loss provided for,
- (x) liabilities of customers under acceptances and letters of credit as per contra,
- (y) real estate other than bank premises,
- (z) mortgages on real estate sold by the bank,
- (aa) bank premises at not more than cost, less amounts, if any, written off,
- (bb) deposit with the Minister of Finance for the security of note circulation,

(cc) shares of and loans to controlled companies,
(dd) other assets not included under the foregoing heads.
This Schedule was amended by Order-in-Council P.C. 3524, dated 11th November, 1935, to read as follows:—

SCHEDULE I

Return of the	Bank	showing the amount of	
its notes in circulation for each juridical day during the month of			
Paid up capital			\$
Amount of notes authorized to be in circulation in the			
calendar year 19 , as provided by Section 61 (2)			
of The Bank Act			\$
Day of the Month	Amount Authorized (see above)	Amount in Circulation	
		In Canada	Elsewhere

I declare that the above return has been prepared under my directions and is correct according to the books of the bank.

E. F.,
Chief Accountant, (or Acting Chief
Accountant, as the case may be).

We declare that the foregoing return is made up from the books of the bank, and that to the best of our knowledge and belief it is correct.

(Place)..... this..... day of..... 19...

A. B.,
President, (Vice-President, or Director
acting as President, as the case may be).
C. D.,
General Manager, (or other principal
officer, as the case may be).

EXHIBIT No. 21

Agreement re Operating Charges on Accounts
.....
.....19...

TO THE CANADIAN BANK OF COMMERCE

.....
In consideration of THE CANADIAN BANK OF COMMERCE keeping the account(s) of the undersigned, the undersigned expressly agrees that the said Bank may make a reasonable monthly charge at its discretion for keeping and operating the said account(s) and the said Bank is hereby authorized to debit such account(s) with the amounts so charged.

The rate of charge may be ascertained upon enquiry.
.....

EXHIBIT No. 22

Statement of Current Operating Earnings and Expenses and Other Information
For the Ten Chartered Banks
(Millions of Dollars)

	Average of financial years 1929-43	Financial year 1943
Current Operating Earnings:		
(1) Interest and Discount on Loans.....	77.5	60.6
(2) Interest, dividends and trading profits on securities....	35.0	48.7
(3) Exchange, commissions, service charges and other current operating earnings.....	26.2	35.2
(4) Total Current Operating Earnings.....	138.7	144.5
Current Operating Expenses:		
(5) Interest on deposits.....	36.0	24.5
(6) Remuneration to employees.....	42.5	49.7
(7) Provision for taxes.....	10.5	15.9
(8) Contributions to pension fund.....	1.5	2.1
(9) Provision for depreciation of bank premises.....	1.8	2.3
(10) All other current operating expenses.....	20.0	20.4
(11) Total current operating expenses.....	112.3	114.9
Supplementary Information:		
(12) Dividends to shareholders.....	13.6	9.6
(13) Net amount of current operating earnings available for losses on loans, investments and other assets and for other contingencies.....	12.8	20.0
(14) Net amount of capital profits, including non-recurring profits	2.5	2.0
(15) Average annual amount required for losses or specific provision for losses on loans, investments and other assets, <i>less</i> recoveries during the fifteen financial years ending the year to which this return relates..	13.8	13.8
Ratios to Total Assets ⁽¹⁾		
Total current operating earnings.....	4.02%	2.86%
Total current operating expenses.....	3.26%	2.28%
Average annual amount required for losses or specific pro- vision for losses on loans, investments and other assets, <i>less</i> recoveries.....	0.40%	
Shareholders net income ⁽²⁾	0.44%	0.35%
Ratio of Shareholders' Net Income ⁽²⁾ to Total Published Share- holders' Equity.....	5.09%	6.03%
Ratio of Deposit Interest to Total Deposits.....	1.25%	0.53%
Ratio of Interest on Loans to Total Loans.....	5.29%	4.55%
Ratio of Interest, Dividends, etc., on Securities to Total Securities	2.80%	1.85%
Total Published Assets ⁽¹⁾	\$3,446.8 mm.	\$5,047.0 mm.
Total Loans ⁽¹⁾	1,465.9 "	1,330.4 "
Total Securities ⁽¹⁾	1,248.0 "	2,634.0 "
Total Deposits ⁽¹⁾	2,936.9 "	4,606.9 "
Total Shareholder' Equity ⁽¹⁾	294.9 "	291.9 "

⁽¹⁾ Averages based on published month-end returns.

⁽²⁾ Shareholders' Net Income has been taken as the sum of dividends, net capital or non-recurring profits and net current earnings available for losses *less* average, annual net amount required for losses in 1929-43.

Exhibit No. 23

COST TO BORROWER OF PERSONAL LOANS—CANADIAN BANK OF COMMERCE
PERSONAL LOAN DEPARTMENT

1. Treating the insurance premium as a part of our charge on the loan.
2. Treating the insurance premium as a separate cost to the borrower, for which he receives value.

Loan.....		\$60.00	\$120.00	\$252.00
Discount.....	\$3.60		\$7.20	\$15.12
Fee.....	.50		.50	.75
		4.10	7.70	15.87
Cash advanced.....		\$55.90	\$112.30	\$236.13
Monthly deposit.....		\$ 5.00	\$ 10.00	\$ 21.00
Interest on deposit.....		.41	.82	1.73
Insurance premium.....		.30	.60	1.26
(1) <i>Balance to borrower</i>.....		.11	.22	.47
Equations.....	$5a_{12}=55.90+ .11v^{12}$	$10a_{12}=112.30-22v^{12}$	$21a_{12}=236.13+.47v^{12}$	
	$a_{12}=11.18+.022v^{12}$	$a_{12}= 11.23+.022v^{12}$	$a_{12}=11.2443+.022v^{12}$	
Monthly rate.....	1.0789%	1.0080%	.9878%	
Annual Effective.....	13.744%	12.790%	12.519%	
(2) <i>If all interest is paid to borrower:</i>				
Equations.....	$5a_{12}=55.90+.41v^{12}$	$10a_{12}=112.30+.82v^{12}$	$21a_{12}=236.13+1.73v^{12}$	
	$a_{12}=11.18+.082v^{12}$	$a_{12}=11.23+.082v^{12}$	$a_{12}=11.2443+.082v^{12}$	
Monthly rate.....	1.0033%	.9325%	.9123%	
Annual Effective.....	12.726%	11.782%	11.514%	

June 6, 1944

Exhibit No. 24

ALL PERSONAL LOAN DEPARTMENTS BY YEARS SINCE INCEPTION

BANKING AND COMMERCE

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Item	1936 (Approx. 6 months)	1937	1938 (11 months)	1939	1940	1941	1942	1943
AMOUNT OF LOANS MADE.....	\$ 1,837,469	5,643,273	8,285,333	12,463,153	11,822,590	11,453,740	8,881,777	8,121,992
NUMBER OF LOANS MADE DURING YEAR.....	12,684	37,907	53,442	78,224	72,387	67,058	52,426	47,292
EARNINGS—TOTAL.....	\$ 32,111	265,117	435,718	665,811	747,587	706,265	642,407	521,249
Interest Earned.....	\$ 23,697	216,820	353,253	545,161	622,169	600,397	555,753	442,631
Investigation Charges.....	\$ 7,793	31,306	49,007	74,035	71,181	64,701	50,392	44,877
Late Penalties.....	\$ 585	16,918	33,158	46,358	53,560	39,496	34,542	31,813
Sundries.....	\$ 36	73	330	257	677	1,671	1,780	1,928
Costs—TOTAL.....	\$ 109,464	309,825	421,534	619,520	675,978	671,832	608,823	500,476
Interest paid.....	\$ 581	16,814	30,160	38,703	38,982	41,649	42,389	33,036
General expense.....	\$ 64,383	138,550	167,852	225,651	274,231	276,835	272,011	240,765
Commission paid to branches to cover their expense....	\$ 26,656	76,402	108,143	166,494	147,925	148,141	111,613	100,452
Reserved for losses.....	\$ 10,000	21,280	29,172	70,432	102,300	98,716	91,653	55,560
Cost of money used.....	\$ 7,844	56,779	86,207	118,240	112,540	106,491	91,157	70,663
OPERATING PROFIT.....	\$ (L) 77,353	(L) 44,708	(P) 14,184	(P) 46,291	(P) 71,609	(P) 34,433	(P) 33,644	(P) 20,773

Exhibit No. 25

PERSONAL LOANS MADE BY CANADIAN BANK OF COMMERCE
FROM INCEPTION, JUNE, 1936, TO APRIL 30, 1944,
BY DIVISIONS

PERSONAL LOANS		
	Number	Amount
Maritimes	24,776	\$ 3,777,585
Quebec	100,451	14,984,387
Ontario	227,037	39,651,680
Manitoba and Saskatchewan.....	32,341	4,963,960
Alberta	17,039	2,785,206
British Columbia	38,223	5,701,594
	<u>439,867</u>	<u>\$71,864,412</u>

April, 1944.

Exhibit No. 26

PERSONAL LOANS MADE BY CANADIAN BANK OF COMMERCE
FROM INCEPTION, JUNE, 1936, TO APRIL 30, 1944, FOR THE
PURPOSE OF ASSISTING BORROWERS IN MEETING
MEDICAL, DENTAL AND HOSPITAL EXPENSES

MEDICAL, DENTAL AND HOSPITAL		
Year	Number	Amount
1936.....	2,472	\$ 255,567
1937.....	6,147	789,342
1938.....	8,282	1,011,370
1939.....	11,915	1,433,378
1940.....	10,888	1,312,020
1941.....	9,720	1,237,410
1942.....	10,385	1,385,587
1943.....	12,385	1,602,761
April, 1944.....	6,093	764,328
	<u>78,187</u>	<u>\$9,791,763</u>

Exhibit No. 27

PERSONAL LOAN BUSINESS

LOANS MADE SINCE INCEPTION OF SCHEME—JUNE 1936 TO 31ST OCTOBER 1943
 BY CLASSIFICATION OF OCCUPATION AND PURPOSE
 FROM MONTHLY STATEMENT FIGURES

	Number	Per Cent of Number	Amount \$	Per Cent of Amount
By OCCUPATION—				
Labourers and Artisans.....	176,970	42·00	25,560,601	37·31
Office, Clerical and Other Non-Manual Workers.....	117,093	27·79	18,429,805	26·90
Foremen, etc.....	42,570	10·10	9,262,907	13·52
School Teachers, Salesmen, Sundries.....	84,757	20·11	15,256,014	22·27
Total.....	421,390	100·00	68,509,327	100·00
By PURPOSE—				
Medical, Dental and Hospital Bills.....	72,194	17·13	9,027,435	13·18
Consolidation of Debts.....	106,437	25·25	14,903,647	21·73
Outside Loan Liquidation.....	10,764	2·55	2,105,548	3·07
Taxes, Real Estate Mortgages and Interest, Insurance Premiums.....	37,438	8·88	6,475,709	9·45
Travel and Education.....	26,357	6·25	3,285,387	4·79
House Improvement, Expenses, Furnishings and Equip- ment.....	59,713	14·17	9,264,984	13·52
Clothing.....	12,512	2·97	1,432,153	2·09
Motor Cars.....	27,381	6·50	5,256,592	7·68
Miscellaneous.....	68,594	16·30	16,757,872	24·49
Total.....	421,390	100·00	68,509,327	100·00

STANDING COMMITTEE

EXHIBIT No. 28
BANK OF MONTREALMONTREAL, Canada,
10th December, 1943.*Enclosure
Registered*

Sir,—In accordance with Section 113, Subsection 2. of The Bank Act, I have the honour to inform you that at the Annual Meeting of this Bank held in the 6th instant the following directors were elected, viz:—

G. E. Barbour, L. J. Belnap, S. G. Blaylock, W. A. Bog, The Honourable Henry Cockshutt, D'Alton C. Coleman, Norman J. Dawes, H. R. Drummond, The Hon. Charles A. Dunning, P.C., W. Sanford Evans, G. Blair Gordon, C. G. Heward, K.C., R. G. Ivey, K.C., Robert A. Laidlaw, Louis L. Lang, Gordon C. Leitch, J. A. MacAulay, K.C., Ross H. McMaster, Major-General, The Hon. S. C. Mewburn, C.M.G., H. W. Molson, W. G. Murrin, J. V. R. Porteous, C. F. Sise, George W. Spinney, C.M.G., Sir Frederick Williams-Taylor.

and attached you will find a list showing their addresses.

The required list of the names of the banks, firms companies and corporations of which these gentlemen are directors or partners will be sent to shortly, when this information has been compiled.

At a meeting of the directors following the Annual General Meeting, Mr. H. R. Drummond was elected Chairman of the Board, Mr. George W. Spinney, C.M.G., was elected President and Major-General The Honourable S. C. Mewburn, C.M.G., and Mr. W. A. Bog were elected Vice-Presidents.

I am,
Yours very truly,
(Sgd.) C. H. CRONYN,
Secretary.

(Note: This list was amended in April to include the name of Hon. Lucien Moraud, K.C. See letters dated Apr. 18th and 24th.)

The Minister of Finance,
Ottawa, Canada.

DIRECTORS OF BANK OF MONTREAL

Names and Addresses

G. E. Barbour, President, G. E. Barbour Company Limited, Saint John, N.B.
L. J. Belnap, Room 1615, Sun Life Building, Montreal.
S. G. Blaylock, President and Managing Director, The Consolidated Mining and Smelting Co. of Canada, Ltd., Trail, B.C.
W. A. Bog, Bank of Montreal (Vice-President), 119 St. James St., Montreal.
The Honourable Henry Cockshutt, 152 Dufferin Ave., Brantford, Ont.
D'Alton C. Coleman, Chairman and President, Canadian Pacific Railway Co., Montreal.
Norman J. Dawes, President, The National Breweries Ltd., 990 Notre Dame St., Montreal.
H. R. Drummond, Bank of Montreal (Chairman of the Board), 119 St. James St., Montreal.
The Hon. Charles A. Dunning, P.C., 1915 Sun Life Building, Montreal.
W. Sanford Evans, Sanford Evans Statistical Service, 171 McDermot Ave., Winnipeg, Man.
G. Blair Gordon, President and Managing Director, Dominion Textile Co. Ltd., 710 Victoria Square, Montreal.
C. G. Heward, K.C., Messrs. Holden, Heward & Holden, 215 St. James Street West, Montreal.
R. G. Ivey, K.C.; Messrs. Ivey & Logan, 366 Richmond Street, London, Ont.
Robert A. Laidlaw, 67 Yonge Street, Toronto, Ont.
Louis L. Lang, President and General Manager, The Lang Tanning Company Limited, Kitchener, Ont.
Gordon C. Leitch, President, Toronto Elevators Limited, Queens Quay, Toronto, Ont.
J. A. MacAulay, K.C., Messrs. Aikins, Loftus, MacAulay, Turner, Thompson & Tritschler, 941 Somerset Building, Winnipeg, Man.
Ross H. McMaster, President, The Steel Co. of Canada Limited, 525 Dominion Street, Montreal.
Major-General the Hon. S. C. Mewburn, C.M.G., Messrs. Mewburn, Marshall & Jefferess, Pigott Building, Hamilton, Ont.
H. W. Molson, P.O. Box 1600, Place d'Armes, Montreal.

W. G. Murrin, President, British Columbia Power Corp. Ltd., B.C. Electric Building, Vancouver, B.C.
 J. V. R. Porteous, President, Greenshields-Hodgson-Racine, Ltd., 60 St. Paul St., W., Montreal.
 C. F. Sise, President, The Bell Telephone Co. of Canada, 1050 Beaver Hall Hill, Montreal.
 George W. Spinney, C.M.G., Bank of Montreal (President), 119 St. James Street, Montreal.
 Sir Frederick Williams-Taylor, Bank of Montreal, 119 St. James Street, Montreal.

BANK OF MONTREAL

MONTREAL, April 18th, 1944.

DEAR SIR,—In keeping with Section 113 of The Bank Act, I have to advise you that at a meeting of our Board of Directors held this morning, the Hon. Lucien Moraud, K.C., was appointed a director of the Bank, filling a vacancy created by action of the Board in increasing the number of directors from twenty-five to twenty-six under authority of By-law No. 4 enacted by the Shareholders of the Bank.

A list of the banks, firms, companies and corporations of which Senator Moraud is a partner or director will be sent to you at a later date when this information has been received.

I am,

Yours very truly,

(Sgd.) C. H. CRONYN,

Secretary.

The Minister of Finance,
 Ottawa, Canada.

April 24th, 1944.

DEAR SIR:

Following upon our letter of the 18th instant, advising you of the election of the Hon. Lucien Moraud, K.C., as a Director of the Bank, we now have pleasure in enclosing a list of the banks, firms, companies and corporations of which he is a partner or director.

I am,

Yours very truly,

(Sgd.) C. H. CRONYN,

Secretary.

The Minister of Finance,
 Ottawa, Canada.

Hon. Lucien Moraud, LL.D., K.C.

Directorships and Partnerships

Moraud, Alleyn, Grenier and Le May; Les Prevoyants du Canada; Wabasso Cotton Co. Ltd.; Sun Trust Ltd.; Les Petroles de Quebec Inc.; La Station des Boulevards Ltée; C.H.R.C. Limitée; Citadel Brick Ltd.; Canadian Equitable Corporation; Quebec Airways Limited; Lake Edward Sanatorium.

BANK OF MONTREAL

MONTREAL, CANADA.

January 4th, 1944.

Registered
Enclosures

DEAR SIR,—Supplementing our letter of the 10th ultimo, relative to the election of directors at the Annual Meeting of this Bank held on the 6th December, 1943, and enclosing their addresses, I now have pleasure in sending to you attached, with the exception of Mr. S. G. Blaylock, a list which has been compiled showing the names of the banks, firms, companies and corporations of which these gentlemen are directors or partners. We have not yet received this information from Mr. Blaylock, but are expecting it daily and it will be forwarded to you as soon as it comes to hand.

I am,

Yours very truly,

(Sgd.) C. H. CRONYN,

Secretary.

The Minister of Finance,
 Ottawa, Canada.

STANDING COMMITTEE

BANK OF MONTREAL

MONTREAL, CANADA,

6th January, 1944.

Registered

Enclosure

DEAR SIR,—Supplementing our letter of the 4th instant in which we sent to you, in compliance with Section 113, sub-section 2, of The Bank Act, lists showing the names of the banks, firms, companies, etc. of which our Directors are partners or directors, we now enclose such list relative to our Director, Mr. S. G. Blaylock. I am,

Yours very truly,

(Sgd.) C. H. CRONYN,

Secretary,

The Minister of Finance,
Ottawa, Canada.

*Directorships and Partnerships**Mr. S. G. Blaylock*

Alberta Nitrogen Products Ltd.; Bank of Montreal; Buena Vista Mining Co. Ltd.; Canadian Pacific Railway Company; The Consolidated Mining & Smelting Co. of Canada Ltd.; Consolidated Mining & Smelting Co. of Quebec Limited; Electrolytic Zinc Process Co. of Montana; Rycon Mines Limited; Solar Development Co. Ltd.; Sunloch Mines Limited; West Kootenay Power & Light Co.

Mr. George E. Barbour

Bank of Montreal; G. E. Barbour Company Limited; Reed Company Limited.

Mr. L. J. Belnap

Anticosti Shipping Company; Bank of Montreal; British American Oil Company Limited; Canadian Locomotive Company Ltd.; Canadian Pacific Railway Company; Citadel Merchandising Co. Ltd.; Consolidated Paper Corporation Ltd.; Dominion Bridge Company Limited; Dominion Engineering Works Ltd.; Dominion Glass Company Limited; Royal Trust Company; St. Maurice Valley Paper Co. Ltd., New York; United States Hoffman Machinery Corporation, New York; Worthington Pump & Machinery Corporation, New York; Worthington-Simpson Limited, London, Eng.

Mr. W. A. Bog

Bank of Montreal; The Royal Trust Company; Standard Life Assurance Company.

The Hon. Henry Cockshutt

Bank of Montreal; Bell Telephone Company of Canada; Canadian Pacific Railway Company; Cockshutt Moulded Aircraft Limited; Cockshutt Plow Company Limited; Dufferin House Limited; Frost & Wood Company Limited, Smiths Falls; The Guarantee Company of North America; Gypsum, Lime & Alabastine (Canada) Ltd., Paris, Ontario; International Nickel Company of Canada Ltd.; Lake Erie & Northern Railway, Montreal; The Royal Trust Company; Standard Lime Company Ltd.; Sun Insurance Office Limited.

Mr. D. C. Coleman

Associated Screen News Limited; Bank of Montreal; Canadian Arena Company; Canadian Pacific Railway Company; Consolidated Mining & Smelting Co. of Canada Ltd.; Metropolitan Life Insurance Company of New York; Minneapolis, St. Paul & Sault Ste. Marie Railway Co.; Quebec Salvage & Wrecking Company, Limited.

Mr. Norman J. Dawes

Amos Dawes Realty Company; Bank of Montreal; Canada Starch Company Limited; Canadian Arena Company; Canadian Investment Fund Limited; Canadian Trade Corporation; B. J. Coghlin Limited; Consolidated Paper Corporation Ltd.; Dawes Realty Company; Dominion Bridge Company Limited; Dominion Engineering Works Limited; Dominion Rubber Company Limited; Frontenac Breweries (1936) Limited; Ice Manufacturing Company Ltd.; Lake of the Woods Milling Company; The National Breweries Limited; The Royal Trust Company; Shawinigan Water & Power Company; Wabasso Cotton Company Limited.

Mr. H. R. Drummond

Bank of Montreal; Canada & Dominion Sugar Company Ltd.; The Canadian Bag Company; Island Land Company; The Royal Trust Company.

The Hon. Charles A. Dunning, P.C.

Allied War Supplies Corporation; Anglo-American Chemicals Ltd.; Bank of Montreal; Bell Telephone Company of Canada; Canadian Investment Fund Limited; Canadian Pacific Railway Company; Consolidated Bakeries of Canada Limited; Consolidated Mining & Smelting Co. of Canada Ltd.; Consolidated Paper Corporation Limited; Dominion Textile Company Limited; Glenora Securities, Inc.; Globe Indemnity Co. of Canada; Hudson's Bay Company; Liverpool & London & Globe Insurance Co. Ltd.; Liverpool-Manitoba Assurance Company; Montreal Cottons Limited; National Liverpool Insurance Company; The Ogilvie Flour Mills Company Ltd.; The Ogilvie Grain Company; Ogilvie Benefit Fund; Pan-American Trust Co.; The Royal Trust Company; Seaforth Milling Company; Steel Company of Canada, Limited; Sun Life Assurance Co. of Canada; West-Canadian Collieries Ltd.

Mr. W. Sanford Evans—

Bank of Montreal; Gurney North West Foundry Co.; Sovereign Life Assurance Co.; Sanford Evans & Company Limited.

Mr. G. Blair Gordon—

Bank of Montreal; Blair & Company; Brown Company, U.S.A.; Canadian Car & Foundry Co., Limited; Canadian Investment Fund Ltd.; Canadian Manufacturers Association; Canadian Pacific Railway Company; Commonwealth International Corporation Limited; The Custody Corporation Limited; Dominion Oilcloth & Linoleum Co. Ltd.; Dominion Textile Company Limited; Drummondville Cotton Company Limited; Federal Aircraft Limited; The Globe Indemnity Company of Canada; Industrial Specialty Manufacturing Co. Limited; The Liverpool & London & Globe Insurance Co. Ltd.; The Liverpool-Manitoba Assurance Company; The Montreal Cottons Limited; Montreal Indoor Tennis Club Limited; Mount Bruno Golf Club; Mutual Life Assurance Co. of Canada; The National-Liverpool Insurance Co.; Paton Manufacturing Co. Ltd.; Penmans Limited; Ritz-Carlton Hotel Co. Ltd.; Sherbrooke Housing Co. Limited.

Mr. C. G. Heward, K.C.

Bank of Montreal; Beacon Agencies Limited; Beauharnois Land Company; Beauharnois Light, Heat & Power Company; Berry Pomroy Co. Limited; Bovril (Canada) Limited; Bowater's Newfoundland Pulp & Paper Mills Limited; The British Metal Corporation (Canada) Limited; Consumers Glass Company Limited; Dun-Eden Investment Co. Limited; The Elford Investing Company Limited; Elston Company Limited; Fernbank Investment Company; Gadian Company Limited; The Glanaford Investing Company Limited; Holden, Heward & Holden; Lachine Rapids Hydraulic and Land Company Limited; Maitland Securities Limited; The Montreal Gas Company; Montreal Island Power Company; The Montreal Light, Heat & Power Company; Montreal Light Heat & Power Consolidated; Montreal, London and General Investors, Limited; Redpath Investments Limited; Riverside Manufacturing Company Limited; Royal Electric Company; The Seaford Company Limited; Stanart Company Limited; Standard Life Assurance Co.; Standard Light & Power Company; The Stuart Investing Company Limited;

Mr. R. G. Ivey, K.C.—

Bank of Montreal; Bathurst Power & Paper Company Limited; California Container Corporation; Canadian General Insurance Company; Canadian International Paper Company; Hygrade Corrugated Products Limited; Hygrade Securities Limited; C. S. Hyman Company Limited; International Malleable Iron Company Limited; Ivey & Logan; London Realty Company Limited; London Street Railway Company; Northern Life Assurance Company of Canada; Ontario Estates Limited; Silverwood Dairies, Limited; Silverwood Securities Limited; Sparton of Canada Limited.

Mr. Robert A. Laidlaw—

Bank of Montreal; Geo. H. Belton Lumber Co. Ltd., London, Ont.; E. L. Bruce Co. Limited; Canada Life Assurance Co.; Central Canada Loan & Savings Co.; De Havilland Aircraft of Canada Ltd.; Ettrick Lumber Co. Ltd., Kelso P.O., Ont.; Exchange Lumber Co., Inc., Rochester, N.Y.; Guelph Lumber Co. Limited, Guelph; Laidlaw, Belton Lumber Co. Ltd., Sarnia; R. Laidlaw Lumber Co. Ltd., Toronto; Maple Leaf Gardens Limited, Toronto; National Trust Co. Ltd.; Toronto Savings & Loan Co.; L. N. Whissel Lumber Co., Inc., Buffalo, N.Y.; Windsor Lumber Co., Limited, Windsor.

Mr. Louis L. Lang—

Appleford Paper Products, Limited, Hamilton; Aridor Co. (Canada) Limited, Hamilton; Bank of Montreal; Canada Colonization Ass'n., Winnipeg; Colonization Finance

Corporation, Winnipeg; Grand River Railway Company (Subsidiary of the C.P.R.); The Lang Tanning Co. Limited; The Mutual Life Assurance Co. of Canada; National Steel Car Corporation, Limited, Hamilton; Ontario Research Foundation, Toronto; Shurly-Dietrich-Atkins Co. Limited, Galt; Sunshine-Waterloo Co. Limited, Waterloo; Waterloo Trust & Savings Company; Western Steel Products, Limited, Winnipeg.

Mr. Gordon C. Leitch—

Bank of Montreal; Chartered Trust & Executor Company; Canada Bread Co. Limited; Eastern Steel Products Limited; Maple Leaf Milling Company Limited; Massey Harris Co. Limited; Mutual Life Assurance Co. of Canada; Sarnia Elevator Co. Limited; Three Rivers Grain & Elevator Co. Ltd.; Toronto Elevators Limited; Toronto Shipbuilding Co. Limited; Upper Lakes & St. Lawrence Transportation Co. Limited; Western Hospital.

Mr. J. A. MacAuley, K.C.

Aikins, Loftus, MacAulay, Turner, Thompson & Tritschler; Bank of Montreal; Dwight Edwards (Canada) Limited; Eldorado Gold Mines Limited; Empress Manufacturing Company Limited; General Assets Limited; Gunnar Gold Mines Limited; Insulmastic Corporation Ltd.; Macdonalds Consolidated Limited; W. V. Moore Limited; Northern Forest Products Limited; Northern Transportation Company Limited; Northern Wood Preservers Limited; Northern Wood Preservers (Sask.) Limited; Safeway Stores Limited; Western Assets Limited.

Mr. Ross H. McMaster

Allied War Supplies Corporation; The American Iron and Steel Institute; Bank of Montreal; Canadian Bronze Company Limited; Canadian Industries Limited; Canadian Pacific Railway Company; Canadian Pratt & Whitney Aircraft Co. Ltd.; Canadian Propellers Ltd.; Consolidated Bakeries of Canada, Limited; Consolidated Mining & Smelting Co. of Canada Ltd.; Consolidated Paper Corporation Limited; Dominion Bridge Company Limited; Glenora Securities Inc.; International Nickel Company of Canada, Limited; Northern Electric Company Limited; Ogilvie Flour Mills Co. Ltd.; Ogilvie Grain Co. Limited; The Royal Trust Company; Seignior Club Community Association; The Steel Company of Canada, Limited; The Sun Life Assurance Company of Canada; West Kootenay Power & Light Company Limited.

Major-General the Hon. S. C. Mewburn, C.M.G.

Bank of Montreal; The Bell Telephone Company of Canada; The Borden Co. Limited; Canadian Dredge & Dock Co. Ltd.; Dominion Glass Company, Ltd.; John Labatt, Limited; Mewburn, Marshall & Jefferess; The Mutual Life Assurance Company of Canada; The Royal Trust Company; The Steel Company of Canada, Ltd.

Mr. H. W. Molson

Bank of Montreal; Beauharnois Light, Heat & Power Company; Canadian Transfer Company; Concord Realty Company; Ice Manufacturing Co., Limited; McGill Building Limited; Molson's Brewery Limited; Montreal Light, Heat & Power Cons.; The Royal Trust Company; Standard Clay Products Limited.

Mr. W. G. Murrin

Bank of Montreal; Blackheath Estates Limited; Bridge River Power Company Limited; British Columbia Electric Railway Co. Ltd.; British Columbia Electric Power & Gas Co. Ltd.; British Columbia Power Corporation Ltd.; British Columbia Rapid Transit Co. Ltd.; Burrard Power Company Limited; Columbia Estate Company Limited; The Cumberland & Union Water Works Company Limited Liability; Dominion Bridge Company Limited; The First Narrows Bridge Company Limited; Gordon & Belyea Limited; The London & Western Trusts Company Ltd.; Mutual Life Assurance Company of Canada; National Utilities Corporation Limited; Royston Light & Power Company Limited; Union Estates Limited; Union Steamship Company of B. C. Limited; Union Steamships Limited; The Vancouver Fraser Valley and Southern Railway Co.; Vancouver Island Power Company Limited; Vancouver Power Company Limited; Vancouver Symphony Society; The Victoria Electric Company Limited; Victoria Gas Company Limited; Western Power Company of Canada Limited.

Mr. J. V. R. Porteous

Bank of Montreal; Grace Dart Home Hospital, Montreal; Greenshields-Hodgson-Racine Ltd., Montreal; Paton Mfg. Co. Ltd.; Sherbrooke Land and Water Power Co. Ltd.

Mr. C. F. Sise

Bank of Montreal; Bell Telephone Company of Canada; Burton's Limited; Consolidated Paper Corporation Ltd.; Globe Indemnity Co. of Canada; Guarantee Company of North America; Laurentian Investment Co.; Liverpool & London & Globe Insurance Co. Ltd.; Liverpool-Manitoba Assurance Company; Maritime Telegraph & Telephone Co. Ltd.; Montreal Telegraph Company; Montreal, London & General Investors Ltd.; Mutual Life Assurance Company of Canada; National-Liverpool Insurance Company; North American Telegraph Company Ltd.; Northern Electric Company Ltd.; The Royal Trust Company.

Mr. George W. Spinney, C.M.G.

Bank of Montreal; Canadian Industries Limited; The Consolidated Mining & Smelting Company of Canada Limited; Montreal London & General Investors Limited; Mount Bruno Golf Club; The Royal Trust Company; The Royal Trust Realty Company; Sun Life Assurance Company of Canada; Steel Co. of Canada.

Sir Frederick Williams-Taylor

Bank of Montreal; Dominion Textile Company Limited; Montreal, London & General Investors Limited; The Royal Trust Company.

THE BANK OF NOVA SCOTIA

TORONTO, Canada, 10th February, 1944.

The Honourable, The MINISTER of Finance,
Ottawa, Canada.

Sir,—In conformity with Section 113, Sub-section 2, of The Bank Act, we beg to advise that at the Annual General Meeting of Shareholders of the Bank held at Halifax on the 2nd February, 1944, the following were elected as Directors for the ensuing year:—

S. J. Moore, Esq., Toronto, Ont.; J. A. McLeod, Esq., Toronto, Ont.; H. F. Patterson, Esq., Toronto, Ont.; Hon. W. D. Ross, Toronto, Ont.; W. W. White, Esq., M.D., Saint John, N.B.; Russell Blackburn, Esq., Ottawa, Ont.; F. P. Starr, Esq., Saint John, N.B.; Sidney T. Smith, Esq., Winnipeg, Man.; The Hon. Leighton McCarthy, P.C., K.C., LL.D., Toronto and Washington; W. M. Birks, Esq., Montreal, Quebec; Hon. F. B. McCurdy, P.C., Halifax, N.S.; A. L. Ellsworth, Esq., Toronto, Ont.; James Y. Murdoch, Esq., K.C., LL.D., Toronto, Ont.; Lieut.-Colonel J. D. Fraser, Ottawa, Ont.; L. A. Lovett, Esq., K.C., Annapolis Royal, N.S.; Christopher Spencer, Vancouver, B.C.; Brig.-General C. H. Maclaren, C.M.G., D.S.O., Ottawa, Ont.; Dr. John G. MacDougall, Halifax, N.S.; J. A. Kilpatrick, Esq., Montreal, Que., and Toronto; W. A. Winfield, Esq., Halifax, N.S.

Chairman of the Board—S. J. Moore.

President—J. A. McLeod.

Executive Vice-President—H. F. Patterson.

Vice-President—Hon. W. D. Ross.

Attached hereto are lists showing the banks, firms, companies and corporations of which the above named Directors are directors or partners.

Yours very truly,

(Sgd.) H. D. BURNS,
General Manager.

Enclosure.

THE BANK OF NOVA SCOTIA

The Honourable Leighton McCarthy, P.C., K.C., LL.D.,—Canada Life Building, Toronto, Ont. and Canadian Embassy, Washington, D.C.

Director—

The Bank of Nova Scotia.

Member of Legal Firm—

McCarthy & McCarthy.

Chairman of Board—

Canada Life Assurance Company.

National Trust Company Ltd.

President—

Canadian Carbon Co. Ltd. (not active).

Dominion Metallurgical Co. Ltd.

Legomac Securities Limited.

Muskoka Mill & Lumber Company.

Vice-President—

Aluminium Limited.
 Canadian National Carbon Co Ltd.
 Central Canada Loan & Savings Co.
 Dominion Mines & Quarries Ltd.
 Dominion Oxygen Company Ltd.
 Electric Furnace Products Co. Ltd.
 Electro Metallurgical Co. of Canada Ltd.
 Prest-O-Lite Co. of Canada Ltd.
 Saguenay Power Company Ltd.
 Toronto Savings & Loan Company.
 Union Carbide Co. of Canada Ltd.

Director—

British American Assurance Co.
 Demerara Bauxite Co. Ltd.
 Maple Leaf Gardens Limited.
 Western Assurance Company.

Member—

Board of Governors of Ridley College, St. Catharines.
 Board of Trustees, Toronto General Hospital.
 Board of Governors of the University of Toronto.

Trustee—

The Georgia Warm Springs Foundation.
 The National Foundation for Infantile Paralysis of the United States of America

W. M. Birks, Esq., 1240 Phillips Square, Montreal, Quebec.

Director—

The Bank of Nova Scotia.

Chairman—

Birks, Ellis, Ryrie Limited.
 Henry Birks & Sons Limited.

Director—

Birmanco Limited.
 Central Investment Corporation.
 Henry Birks & Sons (Montreal) Limited.
 Henry Birks & Sons (B.C.) Limited.
 Mount Royal Hotel Company Limited.
 National Trust Company Limited.
 Sun Life Assurance Company of Canada.

Governor—

McGill University.

Member—

Montreal Protestant Central School Board.

Honourable F. B. McCurdy, P.C., "Emscote", Halifax, N.S.

Director—

The Bank of Nova Scotia.

President—

Chronicle Company, Ltd., Halifax.
 Eastern Trust Company.
 Eastern Utilities Limited.
 Halifax Insurance Company.

Director—

Canadian General Electric Co. Ltd.
 Wartime Merchant Shipping, Ltd.

Member, Board of Governors—

Dalhousie College at Halifax

Governor—

Ashbury College.

Member, Advisory Committee—

War Risk Insurance Act.

A. L. Ellsworth, Esq., Royal Bank Building, Toronto, Ont.

Director—

The Bank of Nova Scotia.

Chairman of the Board—

The British American Oil Co. Ltd.

President—

International Metal Industries Ltd.; Toronto Iron Works Limited.

Director—

Amulet Dufault Mines Limited; Armour Realty Corporation Ltd.; Aunor Gold Mines Limited; British American Oil Producing Co., The, Tulsa, Okla.; Canadian Copper Refiners Ltd.; Chartered Trust & Executor Co.; Hallnor Mines Limited; Maple Leaf Gardens Ltd.; Noranda Mines Limited; Securities Holding Corporation Ltd.; Toronto Pipe Line Company, The, Tulsa, Oklahoma; Waite-Amulet Mines Limited.

James Y. Murdoch, Esq., K.C., LL.D., Royal Bank Building, Toronto, Ont.

Director—

The Bank of Nova Scotia.

Partner—

Legal firm of Holden, Murdoch, Walton, Finlay and Robinson, Toronto.

President—

Amalgamated Larder Mines Ltd.; Amulet Dufault Mines Ltd. (subsidiary of Waite-Amulet Mines Ltd.); Canadian Metal Mining Association; Empresa Minera de Nicaragua (subsidiary of Compania Minera La India); Goldale Mines Limited; Kerr Addison Gold Mines Ltd.; Noranda Mines Limited; Anglo-Porcupine Gold Mines Ltd., Aunor Gold Mines Limited, Canadian Copper Refiners Ltd., Compania Minera La India, Eastward Mines Limited, Hallnor Mines Limited; Keweenaw Silver Mines Limited, Noranda Exploration Co. Ltd., Noranda Hotel Company Limited, Norbeau Mines (Quebec) Limited, Quebec Smelters Limited, Pamour Porcupine Mines Ltd., Waite-Amulet Mines Limited (subsidiaries of Noranda Mines Limited); Office Specialty Manufacturing Co. Ltd., The; Valley Crest Farms, Ltd.; Canada Wire & Cable Co. Ltd.

Vice-President—

Maple Leaf Gardens Limited.

Director—

Allied War Supplies Corporation; Athabaska Nickel Corporation Ltd.; British American Oil Company Ltd., The; Standard Underground Cable Co. of Canada Limited (subsidiary of Canada Wire & Cable Co. Ltd.); Hollinger Consolidated Gold Mines Ltd.; International Bond and Share Corporation; Montreal River International Silver Mines Ltd.; Muskoka Lakes Golf and Country Club Ltd.; Mutual Life Assurance Co. of Canada; National Malartic Gold Mines Ltd.; Noranda Lands Limited; Northland Grocers Limited; Quebec Gold Mining Corporation; Rolland Paper Company Limited; Sheldon-Larder Mines Limited; Wright-Hargreaves Mines Limited.

Director and Members of Executive Committee—

York Club, Toronto.

National Chairman—

War Services Committee of the Y.M.C.A.

Chairman—

Wartime Mining Association.

Member—

Canadian Advisory Committee, Union Insurance Society of Canton Ltd.; National War Services Funds Advisory Board; Executive Committee of National War Services Funds Advisory Board.

Representative of the Provincial Government—

On the Board of Trustees, Toronto General Hospital.

Councillor—

Laval University School of Mines.

Lieut.-Colonel J. D. Fraser, 63 Sparks Street, Ottawa, Ont.

Director—

The Bank of Nova Scotia.

President—

J. B. Fraser Limited, Ottawa; Dominion of Canada Rifle Association; Ottawa River Forest Protective Association, Limited; Perley Home for Incurables; United Services Institute.

Governor—

Ashbury College.

Member of the Executive Council—

Victorian Order of Nurses for Canada.

L. A. Lovett, Esq., K.C., Annapolis Royal, N.S.

Director—

The Bank of Nova Scotia; The Halifax Insurance Company.

Christopher Spencer, Esq., % David Spencer Limited, Vancouver, B.C.

Director—

The Bank of Nova Scotia.

President—

David Spencer Limited, Vancouver, B.C.; Times Printing & Publishing Co. Ltd., Victoria, B.C.

Vice-President—

British Columbia District Telegraph and Delivery Co. Ltd.; Pacific Great Eastern Railway Co.

Director—

First Narrows Bridge Company Limited; North American Life Assurance Company; Pacific Coast Fire Insurance Company.

Brig.-Gen. Charles H. Maclaren, C.M.G., D.S.O., Barrister, 14 Metcalfe Street, Ottawa, Ont.

Director—

The Bank of Nova Scotia.

President—

Maclaren Power & Paper Company; Strathearn Limited; Union Realty Company Limited; Whitmac Limited.

Director—

Maclaren Newsprint Sales Ltd.; Maclaren-Quebec Power Company; The James Maclaren Company Ltd.; The Toronto General Trusts Corporation.

Dr. John G. MacDougall, 17 Parkwood Terrace, Halifax, N.S.

Director—

The Bank of Nova Scotia.

President—

Blue Mountain Investments Limited; The Maritime Life Assurance Company; The Provincial Medical Board of Nova Scotia.

Director—

The Halifax Insurance Company.

Member—

The Board of Governors of Dalhousie University.

Dr. W. W. White, 71 Sydney Street, Saint John, N.B.

Director—

The Bank of Nova Scotia.

Member, Saint John Advisory Committee—

Eastern Trust Company.

Governor—

Boys Industrial Home; Wiggins Male Orphans' Institution.

President—

Saint John General Hospital.

Member—

University of New Brunswick Senate.

F. P. Starr, Esq., Post Office Box 1116, Saint John, N.B.

Director—

The Bank of Nova Scotia.

President—

Admiral Beatty Hotel Co. Ltd.; Starr Limited, R.P. & W.F.; Turnbull Real Estate Co.; Old Ladies Home.

Vice-President and Chairman of Local Board—

Eastern Trust Company.

Vice-President—

Cornwall & York Cotton Mills Ltd.; Pender & Co. Ltd., James.

Director—

St. John's Home for incurables; The Turnbull Home.

Governor—

Wiggins Male Orphans' Institution.

Member—

Diocesan Synod of Fredericton.

Sydney T. Smith, Esq., 919 Grain Exchange, Winnipeg, Man.

Director—

The Bank of Nova Scotia.

President—

Alliance Grain Co. Ltd.; Insul-Mastic Corporation Limited; Province Elevator Company Ltd; Reliance Grain Company Ltd; Smith Murphy Company, Inc.; British & Foreign Bible Society of Canada, The; Winoona Investment Co. Ltd.

Director—

Canada Steamships Lines Limited; Lake Shippers Clearing Association; Northern Trusts Company; Ogilvie Flour Mills Co. Ltd.; Winnipeg Grain & Produce Exchange Clearing Association Ltd.

J. A. Kilpatrick, Esq., 921 Sun Life Building, Montreal, Que.

Director—

The Bank of Nova Scotia.

Chairman of the Board—

Canada Iron Foundries Limited; Consumers Glass Co. Ltd.; Dominion Wheel & Foundries Limited; Reading Car Wheel Co. Inc.

Chairman of the Board and President—

National Iron Corporation Limited.

President—

Albany Car Wheel Company; Gartshore Thomson Pipe & Foundry Co. Ltd.; Lovstead & Co. Ltd., C.M.; Railway & Power Engineering Corporation Ltd.

Director—

Anglo Canadian Wire Rope Co. Limited; Brazeau Collieries Ltd.; Canadian Botfield Refractories Co. Ltd.; Canadian Bridge Co. Ltd., (subsidiary of Dominion Steel and Coal Corporation Limited); Canadian Steel Lands Co. Ltd., Essex Terminal Railway Co. Ltd., (subsidiaries of Canadian Bridge Co. Ltd.).

Director—

Canadian Bronze Co. Ltd.; Diamond Bronze Co. Inc., Montreal Bronze Ltd., Northwestern Brass Ltd., St. Thomas Bronze Co. Ltd., Winnipeg Brass Ltd., (subsidiaries of Canadian Bronze Co. Ltd.); Canadian Tube & Steel Products Ltd., (subsidiary of Dominion Steel & Coal Corporation, Ltd.); Canadian Rolling Mills Co. Ltd., Colonial Wire Mfg. Co. Ltd., Canadian Tube & Iron Co. Ltd., (subsidiaries of Canadian Tube & Steel Products Limited); Dominion Coal Co. Ltd., (subsidiary of Dominion Steel & Coal Corporation Ltd.); Cumberland Railway & Coal Co., Dominion Rolling Stock Co. Ltd., Sydney & Louisburg Railway Co., (subsidiaries of Dominion Coal Company Ltd.); Dominion Steel & Coal Corporation Ltd.; Canadian Bridge Engineering Co. Ltd., Canadian Steel Corporation Ltd., Canadian Steel & Wire Co. Ltd., Cruiser Shipping Co. Ltd., Dominion Shipping Co. Ltd., Graham Nail & Wire Products Ltd., Halifax Shipyards Ltd., Peck Rolling Mills Ltd., Rose Castle Steamship Co. Ltd., Sarnia Fence Co. (1939) Ltd., Seaboard Power Corporation Ltd., Sydney Lumber Co. Ltd., Truscon Steel Co. of Canada Ltd., (snbsidiaries of Dominion Steel & Coal Corporation Ltd.); Dominion Tar & Chemical Co. Ltd.; Canada Creosoting Co. Ltd., Dominion Salt Co. Ltd., Sifto Salt Co. Ltd., Western Salt Co. Ltd., (subsidiaries of Dominion Tar & Chemical Co. Ltd.); Nova Scotia Steel & Coal Co. Ltd., (subsidiary of Dominion Steel & Coal Corporation Ltd.); Acadia Coal Co. Ltd., (subsidiary of Nova Scotia Steel & Coal Co. Ltd.); Pressure Pipe Co. of Canada Ltd., (subsidiary of Canada Iron Foundries Ltd.)

W. A. Winfield, Esq., 89-92 Hollis Street, Halifax, N.S.

Director—

The Bank of Nova Scotia.

President—

Eastern Electric & Supply Co. Ltd.

President & Managing Director—

Maritime Telegraph & Telephone Company, Ltd.

Managing Director—

Atlantic Utilities Ltd.; The Island Telephone Company.

Executive Member Board of Governors—

King's College, Halifax.

Vice-Chairman, Halifax Administrative Committee—

Wartime Housing Ltd.

Russell Blackburn, Esq., Blackburn Building, Ottawa, Ont

Director—

The Bank of Nova Scotia.

President—

R. L. & R. Blackburn Limited.

Vice-President—

Blackburn Brothers Limited.

Member, Ottawa Advisory Board—

Toronto General Trusts Corporation.

Director—

Hawkesbury Lumber Co. Limited.

S. J. Moore, Esq., 330 University Avenue, Toronto, Ont.

Chairman of the Board—

The Bank of Nova Scotia.

Chairman of the Board—

Moore Corporation, Limited.

American Sales Book Company, Inc.

F. N. Burt Company, Inc.

Gilman Fanfold Corporation.

Pacific Manifold Book Company, Inc.

(Subsidiaries of Moore Corporation Ltd.)

President—

Manifold Securities Limited.

Permanent Investments Limited.

Vice-President—

Imperial Life Assurance Co. of Canada.

Director—

Branksome Hall.

Continental Land Corporation Ltd., The

Northern Ontario Building Limited.

Toronto Brick Company Limited.

J. A. McLeod, Esq., General Office, The Bank of Nova Scotia, Toronto, Ont.

President—

The Bank of Nova Scotia.

Vice-President—

National Trust Company Limited.

Director—

Canada Life Assurance Company.

Central Canada Loan and Savings Co.

Empire Realty Company Limited.

Toronto Savings & Loan Company.

Member of the Board—

Branksome Hall.

Chairman of the Board of Managers—

Knox College.

Chairman, Trustee Board of the—

Presbyterian Church in Canada.

H. F. Patterson, Esq., General Office, The Bank of Nova Scotia, Toronto, Ont.

Executive Vice-President and Director—

The Bank of Nova Scotia.

Director—

Empire Realty Company Limited.

Honourable W. D. Ross, 330 Bay Street, Toronto, Ont.

Vice-President and Director—

The Bank of Nova Scotia.

Chairman—

Porto Rico Power Co. Ltd.

President—

Hamilton United Theatres Ltd.

Northern Ontario Building Ltd.

Scotia Company Limited.

Vice-President—

Branksome Hall.

Director—

Acme Gas & Oil Company Limited.

Alberta Land Syndicate.

Burlington Steel Company Ltd.

Canadian General Electric Co. Ltd.

Candis Corporation Limited.

Chateau-Gai Wines Ltd.

Continental Land Corporation Ltd.

Dominion Foundries & Steel Ltd.

Eastern Trust Company.

International Power Company Ltd.

Northern Mexico Power & Development Company Limited.

Oil Selections Limited.

R. McGregor & Sons, Limited.

THE BANK OF TORONTO

Toronto, February 1st, 1943.

The Honourable, The Minister of Finance, Ottawa.

Dear Sir;—As required under Section 113, Sub-section 2 of the Bank Act, we beg to advise that the following were elected directors of this bank at the Annual General Meeting held on the 19th January, 1944:—

Mr. John R. Lamb, Toronto, Ont.

Mr. Paul J. Myler, Hamilton, Ont.

Maj.-Gen. F. S. Meighen, Montreal, Que.

Mr. Frederick K. Morrow, Toronto, Ont.

Mr. J. Douglas Woods, Toronto, Ont.

Mr. George Kidd, Vancouver, B.C.

Mr. Aubrey Davis, Newmarket, Ont.

Mr. Edward D. Gooderham, Toronto, Ont.

Mr. Harry J. Carmichael, St. Catharines and Ottawa, Ont.

Mr. Horace T. Hunter, Toronto, Ont.

Mr. Arthur H. Campbell, Montreal, Que.

Mr. Robert L. Beattie, Copper Cliff, Ont.

Mr. John J. Vaughan, Toronto, Ont.

Mr. John R. Read, Hamilton, Ont.

Mr. F. H. Marsh, Toronto, Ont.

Mr. James L. Carson, Toronto, Ont.

Of the above, Mr. John R. Lamb was elected Chairman of the Board, Mr. F. H. Marsh, President, and Mr. Paul J. Myler and Mr. James L. Carson, Vice-Presidents.

Complying further with the requirements under Section 113, Sub-section 2, we enclose herewith a list of the above-named showing the names of other banks, firms, companies and corporations of which the bank director is a director or partner.

Yours very truly,

B. S. VANSTONE,

General Manager.

THE BANK OF TORONTO

Maj.-Gen. F. S. Meighen—Toronto

Lake of the Woods Milling Co. Ltd., Chairman; Inter City Baking Co. Ltd., President; The New Brunswick Railway Company, President; Canada Northwest Land Company, President; Canadian Pacific Railway Company, Director; Phoenix Assurance Co. Ltd. of London, Eng., Director, Canadian Board; Rosamond Woollen Co. Ltd., Director; Keewatin Flour Mills Co. Ltd., Director; Medicine Hat Milling Co. Ltd., Director; Standard Bread Co. Ltd., Ottawa, Director; A. & L. Strachan Ltd., Montreal, Director; Browns Bread Ltd., Toronto, Director; Standard Bread (Montreal) Ltd., President.

Frederick K. Morrow—Toronto

University of Toronto, Governor; St. Joseph's Hospital, Governor; Toronto Conservatory of Music, Governor; Toronto General Hospital, Trustee; Alliston Hospital, Trustee; Canadian Red Cross Society National Wartime Campaign Committee, Member; Royal Agricultural Winter Fair, Member Executive Committee; St. John Ambulance Association, Hon. Treasurer; Canadian Society for Control of Cancer,

Vice-Pres.; Wilsil Limited, Chairman; Loblaw Groceries Inc., Chairman; Essa Securities Co. Ltd., President; Sentinel Mines Ltd., President; Borealis Company, President; Citadel Merchandising Co. (a Dom. Gov't operated business), Director; Consumers Glass Co. Ltd., Director; Reiss Premier Pipe Company, Director; The Ogilvie Flour Mills Co. Ltd., Director; Consolidated Bakeries of Canada Ltd., Director; Massey-Harris Co. Ltd., Director; Robinson Industries Ltd., Director; Federal Fire Insurance Co., Director; Hiram Walker-Gooderham & Worts Ltd., Director; Maple Leaf Gardens Ltd., Director; Ward Baking Company, Director; Remington Rand Limited, Director; New England Briar Pipe Co., Director; Dover Industries Ltd., Director; Canadian International Paper Company, Director.

Paul J. Myler—Hamilton

Canadian Westinghouse Co. Ltd., Hamilton, Chairman; The Toronto General Trusts Corp., Toronto, Director; Canadian Surety Company, Toronto, Director; Westinghouse Air Brake Co., Pittsburgh, Director; Union Switch & Signal Co., Pittsburgh, Director; Westinghouse Electric & Mfg. Co., Pittsburgh, Director; Canada Steamship Lines Ltd., Montreal, Director; Hamilton Munitions Ltd., Hamilton, Director.

James L. Carson—Toronto

No directorships other than Bank of Toronto. Previously Assistant General Manager of the Bank of Toronto.

I. Douglas Woods—Toronto

York Knitting Mills Ltd., President; J. D. Woods & Gordon Ltd., President; York Paper Box Co. Ltd., President; Woods Bros. & Associates Ltd., President; A. T. Reid Co. Ltd., Vice-President; Woods & Walker Ltd., Grafton, Vice-President; Dupont Textiles Ltd., Director; Independent Towel Supply Co. Ltd., Director; Production-Engineering Ltd., London, Eng., Director; Consolidated Piece Dyers Ltd., Cobourg, Director; The DeHavilland Aircraft of Canada Ltd., Director; C. H. Smith & Co. Ltd., Windsor, Director; Gordon MacKay & Co. Ltd., Director.

John James Vaughan—Toronto

Victory Aircraft Ltd., Director (since resigned); The Eaton Knitting Co. Ltd., Hamilton, Director; Maple Leaf Gardens Ltd., Director.

John R. Read—Hamilton

Canadian Westinghouse Co. Ltd., Hamilton, President; Hamilton Munitions Ltd., President; Atlas Plant Extension Ltd., President; Canadian Radio Patents Ltd., Director; B. Greening Wire Co. Ltd., Director.

John R. Lamb—Toronto

The International Nickel Co. of Canada, Ltd., Director; Canada Permanent Mortgage Corporation, Director; The Canada Permanent Trust Company, Director; Dominion & Anglo Investment Corp., Toronto, Director.

F. H. Marsh—Toronto

The Excelsior Life Insurance Company, Director. Previously General Manager of The Bank of Toronto.

Robert L. Beattie—Copper Cliff

The International Nickel Co. of Canada Ltd., Vice-Pres. & Director; The Huronian Co. Ltd., President & Director; The Upper Spanish Improvement Co. Ltd., President & Director; Ontario Refining Co. Ltd., President & Director; International Sales Ltd., President & Director; Canadian Nickel Products Ltd., President & Director; Horseshoe Lake Mining Co. Ltd., Vice-President; Anglo-Canadian Mining & Refining Co. Ltd., President & Director; Canadian Nickel Co. Ltd., President & Director.

Arthur H. Campbell—Montreal

Campbell, MacLaurin Lumber Co. Ltd., President and Managing Director; Dominion Square Corporation, Vice-President and Director; Crown Trust Company, Director; Fraser Companies Ltd., Director; Lake St. John Power & Paper Co. Ltd., Director; Restigouche Co. Ltd., Director; St. Lawrence Paper Mills Co. Ltd., Director; The New Brunswick Railway Company, Director; Gleneagles Investment Co. Ltd., Director; St. Lawrence Corporation Ltd., Director.

Harry J. Carmichael—St. Catharines and Ottawa

Toronto-St. Catharines Transport Ltd., President; Conroy Manufacturing Co. Ltd., St. Catharines, Vice-President; Buffalo Ankerite Gold Mines Ltd., S. Porcupine, Director; Inspiration Mining & Development Co. Ltd., Amos, P.Q., Director; St. Catharines Hotels Ltd., St. Catharines, Director.

Horace T. Hunter—Toronto

The Maclean Publishing Co. Ltd., Toronto, President; Tradepress Publishing Cpn., Chicago, Ill, President; The Retail Merchants Publishing Co. of Canada. Ltd., Montreal, Vice-President and Director.

Aubrey Davis—Newmarket

Davis Leather Co. Ltd., President and Director; Davis Canadian Leathers Ltd., Leicester, Eng., Chairman and Director; The Toronto General Trusts Cpn., Vice-President and Director; Canadian Oil Companies Ltd., Director; St. Lawrence Paper Mills Co. Ltd., Director.

Edward D. Gooderham—Toronto

The Dominion of Canada General Insurance Co., President; The Casualty Co. of Canada, President; Canada Permanent Mortgage Corp., Vice-President; The Canada Permanent Trust Company, Vice-President; British & American Motors Ltd., Vice-President; Hiram Walker-Gooderham & Worts Ltd., Director; Ridley College, St. Catharines, Governor.

George Kidd—Vancouver

Hunting-Merritt Shingle Co. Ltd., President; British Columbia Pulp & Paper Co. Ltd., Vice-President; Nanaimo & Duncan Utilities Ltd., Vice-President; Bralorne Mines, Ltd., Vice-President; British Columbia Power Cpn. Ltd., Director; The Yorkshire & Pacific Securities Ltd., Director; Waghorn, Gwynn & Co. Ltd., Director; British Columbia Packers Ltd., Director; Hayes Manufacturing Co. Ltd., Director; Canadian Collieries (Dunsmuir) Ltd., Director; Western Fuel Cpn. of Canada Ltd., Director; Vancouver Engineering Works Ltd., Director; McLennan, McFeely & Prior Ltd., Director.

THE PROVINCIAL BANK OF CANADA

MONTREAL, January 19, 1944.

To the Honourable MINISTER OF FINANCE,
Department of Finance,
Ottawa.

DEAR SIR,—

Section 113 (2) of the Bank Act.

In compliance with Section 113 (2) of the Bank Act, we enclose herewith a list showing the name and address of each Director of this Bank elected at the Annual General Meeting of the Shareholders held on the 13th of January, 1944, together with the name of the firms, companies or corporations of which he is a director or partner.

Mr. Chs. A. Roy was re-elected President and Messrs. Geo. A. Savoy and Jean Rolland, Vice Presidents of this Bank, for the ensuing year.

Yours very truly.

(Sgd.) DONAT LALANDE,

Secretary.

RETURN UNDER SECTION 113 (2) OF THE BANK ACT
THE PROVINCIAL BANK OF CANADA

BOARD OF DIRECTORS ELECTED AT MEETING OF SHAREHOLDERS HELD ON JANUARY 13, 1944

Mr. Chs. A. Roy, President, Montreal, (3434 Stanley Street)

Guardian Assurance Co. Ltd. of London, Eng., Can'n Trustee; "La Cie d'Assurance-Vie La Sauvegarde", Director; Needlecraft Mills Ltd., Director; "Hopital Notre Dame", Director; "Hotel Saint-Maurice" Ltée, Director; Yamaska Realty Co. Ltd., Director; "Societe des Infirmieres Visiteuses", Director.

Mr. Geo. A. Savoy, Vice President, St. Johns, Que.

Dominion Blank Book Co. Ltd., President; St. Johns Paper Box Co. Ltd., President; "Savoy et ses Fils", President; Form Printers Ltd., President; Mount Royal Dairies Ltd., Vice President; St. John Ambulance Assn., Ven. Order of St. John of Jerusalem, Vice President; Lanrol Motors Ltd., Director.

Mr. Jean Rolland, Vice-President, Montreal, 116 St. Paul St. West

Rolland Paper Co. Ltd., President; The Regent Knitting Mills Ltd., Vice President; Montreal Life Insurance Company, Director; Can. International Investment Trust Ltd., Director; "Societe d'Administration et de Fiducie", Director; "Societe Nationale d'Assurances", Director; "La Compagnie des Immeubles Barsalou", Director; "Societe des Infirmieres Visiteuses", Director.

Mr. Cecil L. Carsley, Montreal, 4537 Drolet Street

Canada Vinegars Ltd., President; The Lion Vinegar Co. Ltd., President; Raymore Food Ltd., President; National Vinegar Co., President; The St. Lawrence Vinegar Co., President; Western Vinegars Ltd., Director.

Mr. L. J. Codere, Sherbrooke, Que., (26 Sanborn)

"Codere Limitee", Sherbrooke, Que., Hon. President; "La Societe d'Agriculture des Cantons de l'Est", Vice Hon. President.

Mr. C. G. de Tonnancour, Montreal (1449 Alexander St.)

The Regent Knitting Mills Ltd., Pres. & Managing Director; Balfour Building Ltd., President.

Hon. R. O. Grothe, M.L.C., Montreal, (480 Mountain Ave., Westmount)

*"Compagnie Dollard Ltee", President; West Valley Land Co., President; "Conseil des Oeuvres Catholiques", President; Sun Trust Ltd., Director; Montreal Life Insurance Company, Director; Pioneer Insurance Company, Director; "Assurance du Canada contre l'Incendie", Director.

Mr. Alfred Lambert, Montreal, (28 St. James St. West)

Monkland Investment Corporation, President; Canada Accident & Fire Assurance Co., Director.

Mr. Alfred Marois, Jr., Quebec, Que., (463 St. Valier St.)

"A. E. Marois Limitee", Vice President; "Abattoir de Quebec, Inc.", Vice President; Price Brothers Limited, Quebec, Director.

THE CANADIAN BANK OF COMMERCE

TORONTO, 14th December, 1943.

The Honourable the MINISTER OF FINANCE, Ottawa, Ont.

Dear Sir:—In accordance with the provisions of Section 113 (2) of the Bank Act, we record that at the Annual Meeting of the Shareholders of this Bank held to-day the following members of the Board were unanimously re-elected as Directors of the Bank for the year 1944:—

H. S. Ambrose, A. E. Arscott, J. P. Bickell, Chas. W. Colby, Ph.D., LL.D., Geo. R. Cottrelle, O.B.E., F. W. Cowan, H. C. Cox, J. S. Duncan, G. C. Edwards, Gordon Farrell, E. C. Fox, H. J. Fuller, Colonel Walter Gow, K.C., W. W. Hutchison, A. M. M. Kirkpatrick, S. H. Logan, H. R. MacMillan, C.B.E., J. S. McLean, A. N. Mitchell, Geo. A. Morrow, John C. Newman, I. Pitblado, K.C., LL.D., Hon. Donat Raymond, W. P. Riley, John Stuart, H. M. Turner, Arthur F. White, The Rt. Hon. Sir Thomas White, G.C.M.G., P.C., A. V. Young.

At the subsequent organization meeting of the Board the following officers were elected:—

Chairman of the Board, The Rt. Hon. Sir Thomas White, G.C.M.G., P.C.; President, S. H. Logan; Executive Vice-President, A. E. Arscott; Vice Presidents, Geo. A. Morrow, Arthur F. White.

A list of the firms, companies, etc., with which the Directors are connected will be forwarded to you in due course.

We would also record that Mr. A. B. Shepherd, F.C.A., of Messrs. Peat, Marwick, Mitchell & Company, and Mr. G. T. Clarkson, of Messrs. Clarkson, Gordon, Dilworth & Nash, were appointed the Shareholders' Auditors for the coming year.

Yours truly,

(Sgd) A. K. HARVIE,

Secretary.

THE CANADIAN BANK OF COMMERCE

TORONTO, 10th January, 1944.

The Honourable the MINISTER OF FINANCE, Ottawa, Ont.

Dear Sir:—Further to our letter of 14th December last, and in accordance with the provisions of Section 113, (2) of The Bank Act, we now enclose a return showing the name and address of each of the Directors elected at the Annual Meeting of Shareholders of the Bank held on 14th December, 1943, embodying a list of the banks, firms, companies and corporations of which each is a director or a partner.

Yours very truly,

(Sgd) A. K. HARVIE,

Secretary.

* Name of Compagnie Dollard Ltee changed to L. O. & G. Ltee as advised under the date of January 26, 1944.

THE CANADIAN BANK OF COMMERCE

Return showing names and addresses of the directors elected at the annual general meeting held on 14th December, 1943, and list of the banks, firms, companies and corporations of which they are directors or partners in accordance with section 113, subsection 2, of the Bank Act.

Chairman of the Board: The Right Honourable Sir Thomas White, G.C.M.G., P.C.

President: S. H. Logan.

Executive Vice-President: A. E. Arscott, C.B.E.

Vice-Presidents: George A. Morrow, Arthur F. White.

Directors:

H. S. Ambrose, 126 Aberdeen Avenue, Hamilton, Ontario.

A. E. Arscott, C.B.E., The Canadian Bank of Commerce, Head Office, Toronto.

J. P. Bickell, 25 King St. West, Toronto 1, Ontario.

Charles W. Colby, Ph.D., LL.D., 1240 Pine Ave. West, Montreal.

George R. Cottrelle, O.B.E., 25 King St. West, Toronto 1, Ont.

F. W. Cowan, 174 Teddington Park Avenue, Toronto 12, Ont.

Herbert C. Cox, Canada Life Assurance Co., Toronto 1, Ont.

James S. Duncan, % Massey-Harris Co. Ltd., 915 King St. W., Toronto.

Gordon C. Edwards, 140 Wellington St., Ottawa.

Gordon Farrell, British Columbia Telephone Company, 768 Seymour St., Vancouver, B.C.

E. C. Fox, Room 311, 159 Bay St., Toronto.

H. J. Fuller, 60 East 42nd St., New York 17.

Colonel Walter Gow, K.C., % Brazilian Traction Light & Power Co. Ltd., 25 King St. West, Toronto.

W. W. Hutchison, 364 Metcalfe Avenue, Westmount, P.Q.

A. M. M. Kirkpatrick, Messrs. Wood & Kirkpatrick, 15 Toronto St., Toronto.

S. H. Logan, The Canadian Bank of Commerce, Toronto 1.

H. R. MacMillan, C.B.E., % H. R. MacMillan Export Co. Ltd., Metropolitan Building, Vancouver.

J. S. McLean, Canada Packers Ltd., Union Stock Yards, Toronto.

A. N. Mitchell, Canada Life Assurance Company, Toronto.

G. A. Morrow, Central Canada Loan & Savings Company, 24-26 King Street East, Toronto.

John C. Newman, General Steel Wares Ltd., 1416 Royal Bank Bldg., Montreal.

I. Pitblado, K.C., LL.D., Messrs. Pitblado, Hoskin, Grundy, Bennest & Drummond-Hay, Hamilton Bldg., 395 Main St., Winnipeg.

The Honourable Donat Raymond, 360 St. James St. West, Montreal.

W. P. Riley, % Western Grocers Ltd., 116 Market St. East, Winnipeg.

John Stuart, 141 West Jackson Boulevard, Room 1900, Chicago, Illinois.

H. M. Turner, % General Electric Co. Ltd., 212 King St. West, Toronto.

Arthur F. White, Dominion Securities Corp'n. Ltd., 15 King St. West, Toronto.

The Right Honourable Sir Thomas White, G.C.M.G., P.C., 175 Teddington Park Avenue, Toronto 12.

A. V. Young, % Hamilton Cotton Co. Ltd., Hamilton, Ont.

H. S. Ambrose

Aged Women's Home, Hamilton, Chairman, Board of Trustees.

Atherley Securities Ltd., President.

Girls' Home, Hamilton, Chairman, Board of Trustees.

Hillfield School, Hamilton, Vice-Chairman, Board of Trustees.

Tuckett Tobacco Co. Ltd., The, Director.

Trinity College, Toronto, Member of Corporation.

Tamahaac Club, Member, Board of Governors.

A. E. Arscott, C.B.E.

Canada Life Assurance Company, Director.

Dominion Realty Co. Ltd., Vice-President.

Russell Industries Ltd., Director.

Canada Cycle & Motor Co. Ltd., Director.

Canadian Acme Screw & Gear Ltd., Director.

Wartime Merchant Shipping Ltd., Director.

J. P. Bickell

Castle-Tretheway Mines Ltd., President.

Frontier College, Director.

Imperial Life Assurance Co. of Can., The, Director.

International Nickel Co. of Can. Ltd., The, Director.

Maple Leaf Gardens Ltd., Chairman of Board.

McIntyre-Porcupine Mines Ltd., President.

Belleterre Quebec Mines Ltd., President.

Blue Diamond Coal Co. Ltd., President.

STANDING COMMITTEE

National Trust Co. Ltd., Director.
 Omega Gold Mines Ltd., President.
 Ontario Mining Association, Director.
 Paquin Gold Mines Ltd., President.
 St. Mary's Cement Co. Ltd., Director.
 Victory Aircraft Ltd., President.
 Wellesley Hospital, Director.

C. W. Colby, Ph.D., LL.D.

Aikal Ltd., Director.
 Aldred & Co. Ltd., Montreal, Vice-President.
 Anglo-Canadian Securities Corp., Vice-President.
 Asbestos Corporation Ltd., Vice-President.
 Dominion Wire Rope & Cable Co. Ltd., Vice-President.
 Elephantis Ltd., Director.
 Goulds Pumps Inc., Vice-President.
 Highcroft Ltd., Director.
 McGill University, Governor.
 Montreal General Hospital, Governor.
 Moore Corporation Ltd., Director.
 American Sales Book Co. Inc., Director.
 Burt Co. Ltd., F. N., Director.
 Pacific Manifolding Book Co. Inc., Director.
 Northern Securities Ltd., President.
 Remington Rand Inc., Director.
 Noiseless Typewriter Co. Ltd., The, President.
 Remington Rand Ltd., Chairman.
 Stanstead Wesleyan College, Chairman.

George R. Cottrelle, O.B.E.

Brazeau Collieries Ltd., Director.
 Foster Wheeler Ltd., Director.
 Hamilton Bridge Co. Ltd., Director.
 Maple Leaf Gardens Ltd., Director.
 National Sanitarium Association, Trustee.
 Royal Agricultural Winter Fair Assn. of Can., Member of Executive Committee.
 St. Lawrence Corporation Ltd., Director.
 Sawyer-Massey Ltd., President.
 Toronto Hospital for Consumptives, Trustee.

F. W. Cowan

Beauvoir Securities Ltd. (Personal company), President.
 Trinity College, Governor.

Herbert C. Cox

{ British America Assurance Co., Vice-President.
 { Western Assurance Company, Vice-President.
 British Canadian Insurance Co., Director.
 British Empire Assurance Co., Director.
 Imperial Guarantee & Accident Ins. Co., Director.
 Canada Life Assurance Co., Chairman of the London Board.
 Canadian General Electric Co. Ltd., Director.
 Central Canada Loan & Savings Co., Director.
 Combined Assets Ltd., President.
 National Trust Co. Ltd., Director.
 Provident Investment Co., Director.
 Toronto General Hospital, Director.
 Toronto Savings & Loan Co., Director.

James S. Duncan

Aircraft Industry Relations Committee, Director.
 Canada Cement Co. Ltd., Director.
 Canadian Chamber of Commerce, The, Director.
 Cutting Tools & Gauges Ltd., Director.
 Massey-Harris Company, Limited, President.
 Massey-Harris Company, The, President.
 McKay, H. V., Massey-Harris Pty. Ltd., Director.
 Sunshine Waterloo Co. Ltd., Director.
 Page-Hersey Tubes Ltd., Director.
 Toronto Conservatory of Music, Director.
 University of Toronto, Governor.

Gordon C. Edwards

- Avion Ltd., Director.
- Borden's Ltd., Director.
- Borden Co. Ltd., The—Toronto, Director.
- Ottawa Dairy Ltd., Ottawa, Director.
- Canada Cement Co. Ltd., Director.
- Canada Foundries & Forgings Ltd., Director.
- Canadian Cannery Ltd., Director.
- Pembroke Shook Mills Ltd., Pembroke, Director.
- Canadian International Paper Co., Director.
- Cumberland Ltd., Director.
- Edwards Agencies Ltd., President.
- Edwards & Co. Ltd., W. C., President.
- Empress Navigation Co., Director.
- Foster Wheeler Ltd., Director.
- General Supply Co. of Canada Ltd., Director.
- Irving Ltd., Director.
- McMaster University, Governor.
- Ottawa Transportation Company, Director.
- Rockland Limited, President.
- Russell Investments Ltd., President.
- Somerset Ltd., Director.
- Standard Paving & Materials Ltd., Vice-President.
- Consolidated Sand & Gravel Ltd., Director.
- Kilmer & Barber Ltd., Director.
- National Sand & Material Ltd., Director.
- Standard Paving Ltd., Director.
- Toronto General Trusts Corporation Ltd., Member of Advisory Bd., Ottawa Branch.
- Victoria Realty Corporation Ltd., Director.
- Watson & Todd Limited, Director.
- Wellington Investments Ltd., Director.
- Young Men's Christian Association, Director.

Gordon Farrell

- Anglo-Canadian Telephone Co., Vice-President.
- British Columbia Telephone Co., President.
- Chilliwack Telephones Ltd., President.
- Kootenay Telephone Co. Ltd., President.
- Mission Telephone Co. Ltd., President.
- North-west Telephone Co., President.
- B. C. Cancer Institute, Director.
- British Columbia Cement Co. Ltd., Director.
- British Columbia Packers Ltd., Director.
- Buckerfield's Ltd., Director.
- Clayburn Holdings Ltd., Director.
- Clayburn Co. Ltd., Director.
- Crofton House School Company, Director.
- Evans Coleman Gilley Bros. Co. Ltd., President.
- Coast Cement Co. Ltd., Director.
- Diethers Ltd., President.
- Evans Coleman & Evans Ltd., President.
- Evans Coleman & Johnson Bros., Ltd., President.
- Evans Coleman Trading Co. Ltd., President.
- Evans Coleman Wharf Co. Ltd., President.
- Fresh Water Sand & Gravel Co. Ltd., President.
- Gabriola Shale Products Co. Ltd., President.
- Gilley Bros. Ltd., President.
- Marpole Brick Co. Ltd., President.
- Marpole Coal Co. Ltd., President.
- Marpole Towing Co. Ltd., Director.
- McCleery & Weston Ltd., President.
- Monarch Towing & Trading Co. Ltd., President.
- Producers Sand & Gravel (1929) Ltd., President.
- Vancouver Brick & Tile Ltd., President.
- General Truck Sales Ltd., Director.
- Granville Estates (No. 3) Ltd., Director.
- Hayes Manufacturing Co. Ltd., President.
- London & Western Trusts Co. Ltd., The, Director.
- McLennan, McFeely & Prior Ltd., Vice-President.
- Nanaimo-Duncan Utilities Ltd., Director.

Neon Products of Western Canada Ltd., Vice-President.
 Placer Engineers Ltd., Director.
 Rigby Investments Ltd., President.
 Union Steamship Co. of British Columbia Ltd., President.
 Union Estates Ltd., President.
 Union Steamships Ltd., President.
 Waterhouse & Co. of Canada Ltd., Frank, President.
 Willfar Limited, Director.

E. C. Fox

Canadian Cottons Limited, President and Managing Director.
 McMaster University, Member of Board.
 Photo Engravers & Electrotypers Ltd., Director.
 Toronto General Hospital, Trustee.
 Yorkminster Baptist Church, Trustee.

H. J. Fuller

Alvin Corporation, The, Chairman.
 Black, Starr & Gorham, Inc., Director.
 Canada Cement Co. Ltd., Director.
 Canadian Fairbanks-Morse Co. Ltd., The, Director.
 Canadian Ingersoll-Rand Co., Director.
 Chase National Bank, 42nd St. Branch, N.Y., Member Advisory Board.
 Fishers Island Country Club, Governor.
 Fishers Island Electric Co., Director.
 Fishers Island Telephone Co., Director.
 Gomanco Inc., Director.
 Gorham Co., The, Chairman.
 Gorham, Inc., Chairman.
 Gorham Manufacturing Co., Chairman.
 Grand Central Art Galleries, President.
 National Bondholders Corporation, Director.
 Northeastern Packing Co., Director.
 Page-Hersey Tubes Ltd., Director.
 Pittston Company, The, Director.
 Remington Rand Inc., Director.
 St. Johnsbury Academy, Trustee.
 Savage Arms Corporation, Director.
 Worcester Polytechnic Institute, Trustee.

Colonel Walter Gow, K.C.

Blake, Anglin, Osler & Cassels, Partner (Nominal).
 Brazilian Traction Light & Power Co. Ltd., Vice-President.
 Brazilian Hydro Electric Co. Ltd., Vice-President.
 Brazilian Telephone Co., Vice-President.
 City of Santos Improvements Co. Ltd., The, Vice-President.
 Rio de Janeiro Tramway Light & Power Co. Ltd., The, Vice-President.
 Sao Paulo Gas Co., The, Director.
 Sao Paulo Electric Co. Ltd., Vice-President.
 Sao Paulo Tramway Light & Power Co., The, Vice-President.
 Societe Anonyme du Gaz de Rio de Janeiro (Brussels, Belgium), Director.
 Burnbrae Ltd., President.
 Outstorm Securities Ltd., Director.

W. W. Hutchison

Catelli Food Products Ltd., Director.
 International Paints (Canada) Ltd., Vice-President.
 Dickson & Co., William Johnson, Director.
 Holland Varnish Ltd., The, Director.
 Ramsay & Son Co. Ltd., A., Director.
 Stewart & Wood Ltd., Director.
 Montreal General Hospital, Governor.

A. M. M. Kirkpatrick

Adamsville Securities Ltd., President.
 Coolmine Securities Ltd., President.
 Dominion Scottish Investments Ltd., Member of Advisory Committee.
 Economic Investment Trust Ltd., Director.
 Gray-Dort Manufacturing Co., President.
 Toronto Mortgage Co., The, President.
 Trinity College, Member of Corporation.
 Wood & Kirkpatrick, Partner.

S. H. Logan

Boy Scouts Association, Member Canadian General Council.
 Brazilian Traction Light & Power Co Ltd., Director.
 British America Assurance Co., Director.
 Western Assurance Co., Director.
 Canadian Bank of Commerce (California), The, Director.
 Canadian Red Cross Society, Toronto Branch, Member Wartime Council.
 Central Canada Loan & Savings Co., Director.
 Chetwode Limited, President.
 Dominion Realty Co. Ltd., President.
 Imperial Life Assurance Co. of Canada, The, Director.
 Maple Leaf Gardens Ltd., Director.
 National Trust Co. Ltd., Director.
 Salvation Army, The, Member Toronto Advisory Board.
 Toronto Savings & Loan Co, Director.
 Victory Aircraft Ltd., Director.

H. R. MacMillan, C.B.E

Australian British Columbia Shipping Co., President.
 British Columbia Packers Ltd., President.
 British Columbia Packers Association, The, President.
 British Columbia Packers (Ontario) Ltd., President.
 British Columbia Packers (Quebec) Ltd., President.
 British Columbia Fishing & Packing Co. Ltd., President.
 Delta Properties Ltd., President.
 Edmunds & Walker Ltd., President.
 Gordon, Powell & Co. Ltd., President.
 Gosse Packing Co. Ltd., President.
 Gregory & Co. Ltd., B., President.
 Henry & Son Ltd., Robert, President.
 Millerd Packing Co. Ltd., President.
 Packers Steamship Co. Ltd., The, President.
 Wallace Fisheries Ltd., President.
 British Columbia Power Corp'n. Ltd., Director.
 Canadian Chamber of Commerce, The, Member, National Board of Directors.
 Canadian Chamber of Commerce, The, Member, Joint Can.-U.S. Committee.
 Dominion Tar & Chemical Co. Ltd., Director.
 Vancouver Creosoting Co. Ltd., Director.
 Forest Investment Co. Ltd., Director.
 International Nickel Co. of Canada Ltd, The, Director.
 Lions Gate Riding & Polo Club, Hon. Director.
 London & Western Trusts Co. Ltd., The, Vice-President.
 MacMillan Export Co. Ltd., H. R., President.
 Alberni Pacific Lumber Co. Ltd., President.
 Alberni Pacific Transport Co. Ltd., President.
 Alberni Plywoods Ltd., President.
 Alpine Timber Co. Ltd., President.
 British Columbia Plywoods Ltd., President.
 British Columbia Plywoods (Manitoba) Ltd., President.
 British Columbia Plywoods (Ontario) Ltd., President.
 British Columbia Plywoods (Quebec) Ltd., President.
 Campbell River Timber Co. Ltd., President.
 Canadian Lumber & Door Ltd., President.
 Canadian Transport Co. Ltd., President.
 Canadian White Pine Co. Ltd., President.
 Coast Mills Export Co. Ltd., President.
 MacMillan Export Co., U.S.A., H. R., President.
 MacMillan Export (Quebec) Ltd., H. R., President.
 MacMillan Industries Ltd., President.
 Mills & Packers Ltd., President.
 Nanoose Trucking Co. Ltd., President.
 Northwest Bay Logging Co. Ltd., President.
 North Island Trucking Co. Ltd., President.
 Shawnigan Lake Lumber Co. Ltd., President.
 Shaughnessy Heights Property Owners' Assn., The, Member of Executive Committee.
 Sun Insurance Office Ltd., Member of Can. Advisory Board.
 Wartime Merchant Shipping Ltd., Director.

J. S. McLean

Art Gallery of Toronto, Vice-President.
 Boston Conference on Distribution, Member, Nat'l Adv. Group.
 Branksome Hall, Director.
 British Columbia Packers Ltd., Director.
 Canada Packers Ltd., President.
 Canada Packers Inc., President.
 Canada Packers Pension Fund Society, President.
 Canadian Packing Co. Ltd., Vice-President.
 Collis Leather Co. Ltd., President.
 Davies Co. Inc., William, President.
 Columbia Warehouse Co. Inc., President.
 Davies Co. Ltd., The William, Vice-President.
 Gunns Ltd., President.
 Harris Abattoir Co. Ltd., The, Vice-President.
 National Canned Meats Ltd., Vice-President.
 Ontario Fertilizers Ltd., Director.
 Canadian Chamber of Commerce, Mem. Adv. Council.
 Canadian Institute of International Affairs, Vice-Pres. Nat'l Council.
 Canadian Manufacturers' Association, Member Executive Council.
 Canadian Red Cross Society, Ontario Division, Hon. Vice-President.
 Canadian Red Cross Society, North York Branch, Hon. President.
 Canadian Red Cross Society, Toronto Branch, Member Adv. Council.
 Glen Major Anglers Club, Director.
 Industrial Accidents Prevention Committee, Member.
 Massey Music Hall, Chairman, Board of Trustees.
 Sturgeon Realty Ltd., President.
 Toronto Mendelssohn Choir, Member Executive Board.
 Toronto Western Hospital, Director.
 Windsor Court Apartments Ltd., Director.

A. N. Mitchell

Canada Life Assurance Co., President.
 National Trust Co. Ltd., Vice-President.

G. A. Morrow

(British America Assurance Co., Vice-President.
 (Western Assurance Co., Vice-President.
 British Canadian Insurance Co., Vice-President.
 British Empire Assurance Co., Vice-President.
 Imperial Guarantee & Accident Insurance Co.), Vice-President.
 Burlington Steel Co. Ltd., Vice-President.
 Canadian Real Estate Co. Ltd., President.
 Central Canada Loan & Savings Co., President.
 Imperial Life Assurance Co. of Canada, The, Chairman of Exec. Committee.
 National Trust Co. Ltd., Vice-President.
 Toronto General Hospital, Trustee.
 Toronto Savings & Loan Co., Director.

John C. Newman

Anglo-Canadian Telephone Co., Director.
 Baldwins Ltd. (England), Director.
 Baldwins Montreal Ltd., President.
 Boys' Farm & Training School, Director.
 Canadian Car & Foundry Co. Ltd., Director.
 Carter White Lead Co. of Canada Ltd., Director.
 Children's Memorial Hospital, Montreal, Governor.
 General Steel Wares Ltd., President.
 G.S.W. Acceptance Co. Ltd., President.
 McGill University, Governor.
 Mitchell & Co. Ltd., J. S., President.
 Montreal General Hospital, President.
 Montreal Trust Co., Director.
 Price Bros. & Co. Ltd., Director.
 Sherwin-Williams Co. of Canada Ltd., The, Director.
 Verdun Protestant Hospital, President.

I. Pitblado, K.C., LL.D.

Brown & Rutherford Ltd., Director.
 Investors Syndicate of Canada Ltd., Director.
 Lake of the Woods Milling Co. Ltd., Director.

Mutual Life Assurance Co. of Canada, Director.
 Northern Public Service Corp'n. Ltd., Director.
 Pitblado, Hoskin, Grundy, Bennest & Drummond-Hay, Senior Partner.
 Riverbend School for Girls, Governor.
 Speirs-Parnell Baking Co. Ltd., Director.
 Toronto General Trusts Corp'n., Director.
 Winnipeg Electric Co., Director.

The Honourable Donat Raymond

Borden's Ltd., Director.
 Borden Co. Ltd., The—Toronto, Director.
 Canada Cement Co. Ltd., Director.
 Canadian Arena Co., Director.
 Canadian International Paper Co., Director.
 Dominion Glass Co. Ltd., Director.
 Fire Insurance Co. of Canada, Director.
 General Steel Wares Ltd., Director.
 Homeopathic Hospital of Montreal, The, Governor.
 Imperial Life Assurance Co. of Canada, The, Policy-Holders' Director.
 Montreal Refrigerating & Storage Ltd., Director.
 Napierville Junction Railway Co., The, Director.
 National Breweries Ltd., Director.
 Notre Dame Hospital, Montreal, Governor.
 Queen's Hotel Ltd., Director.
 Saint-Jeanne d'Arc Hospital, Montreal, Governor.
 Trust General du Canada, Director.
 University of Montreal, Director.

W. P. Riley

Ashcroft Salts Ltd., President.
 Associated Reciprocal Underwriters, Director.
 Canadian National Institute for the Blind, Governor.
 Canadian Reciprocal Underwriters, Director.
 Great-West Life Assurance Co., President.
 Monarch Lumber Co. Ltd., Director.
 Northern Traders Ltd., Vice-President.
 Red & White Corporation Ltd., President.
 Red & White Corporation Inc., Director.
 Slocum-Bergren Company, Director.
 Toronto General Trusts Corp'n., Member Adv. Committee, Winnipeg Br.
 Western Chamois Products Ltd., Director.
 Western Grocers Ltd., President and General Manager.
 Cooper Ltd., H. H., Vice-President.
 Dominion Fruit Ltd., President.
 Gateway Grocers Ltd., President.
 Malkin Co. Ltd., W. H., President.
 Manitoba Sugar Co. Ltd., Director.

John Stuart

Benjamin Electric Manufacturing Co., Director.
 Canada Life Assurance Co., Director.
 Chicago Daily News Co., Director.
 Committee for Economic Development, Trustee.
 Elgin National Watch Co., Director.
 First State Pawners Society, Director.
 International Harvester Co., Director.
 Lyon Lumber Co., The, Director.
 Northern Trust Co., The, Director.
 Princeton University, Trustee.
 Quaker Oats Co., The, Chairman of the Board.
 Aunt Jemima Mill & Elevator Co., Director.
 Monona Farms Co. (Wis), Director.
 Peterborough Hydraulic Power Co. Ltd. (Ont), President.
 Q. O. Chemical Company, The, President.
 Q.O. Ordnance Corporation, The, President.
 Quaker Oats of Canada Ltd., The, Director.
 Quaker Oats Ltd. (England), Director.
 Quaker Oats (France), Director.
 Ravenna Co. Ltd., (Family Corp), President.
 University of Chicago, The, Trustee.

H. M. Turner

Canadian General Electric Co. Ltd., Vice-President.
 Canadian Allis-Chalmers Ltd., Vice-President.
 Canadian Edison Appliance Co. Ltd., President.
 Canadian General Electric Pension Trust, Trustee.
 Canadian General Electric Savings Plan, Trustee.
 Canadian Laco Lamp Co. Ltd., Director.
 Canadian Sunbeam Lamp Co. Ltd., President.
 Canadian Tungsten Lamp Co., President.
 Genelco Limited, Vice-President.
 Radio Valve Co. of Canada Ltd., Director.

A. F. White

Boone Dredging & Construction Co. Ltd., The C. S., Director.
 Canadian Mortgage Investment Co., The, Director.
 Confederation Life Association, Director.
 Debenture & Securities Corp. of Canada, The, Director.
 Dominion & Anglo Investment Corp. Ltd., Director.
 Dominion Holding Co. Ltd., President.
 Dominion Realty Co. Ltd., Director.
 Dominion Securities Corp. Ltd., President.
 Dominion Securities Corp. (New York), President.
 General Shareholdings Corp., Director.
 Gilman Inc., Ernest, Director.
 Hospital for Sick Children, Trustee.
 McGlashan, Clarke Co. Ltd., Director.
 Mohawk Corp. Ltd., Director.
 National Investors Corp., Director.
 Provincial Paper Ltd., Director.
 St. James Cathedral, Member Finance Committee.
 St. Lawrence Corp. Ltd., Chairman of Board.
 Brompton Pulp & Paper Co. Ltd., The, President.
 Dominion Lime Ltd., President.
 McCrea-Wilson Lumber Co. Ltd., President.
 St. Lawrence Paper Mills Co., Vice-President.
 St. Lawrence Sales Co. Ltd., President.
 Tourville Lumber Mills Co., President.
 Sangamo Co. Ltd., Director.
 Toronto Mortgage Co., The, Director.
 Tri-Continental Corporation, Director.
 Trinity College, Member of Corporation.
 Trusts & Guarantee Co. Ltd., The, President.
 Union Gas Company of Canada Ltd., Director.
 White & Haldenby, Partner.

The Right Honourable Sir Thomas White, G.C.M.G., P.C.

Brazilian Traction Light & Power Co. Ltd., Director.
 Rio de Janeiro Tramway Light & Power Co. Ltd., The, Director.
 Sao Paulo Tramway Light & Power Co. Ltd., The, Director.
 Canada Life Assurance Co., Policy-holders' Director.
 Dominion Realty Co. Ltd., Director.
 National Trust Co. Ltd., Vice-President.
 Steel Company of Canada Ltd., The, Director.

A. V. Young

Bituminous Spraying & Contracting Co. Ltd., Director.
 Canada Crushed Stone Co. Ltd., President.
 Canadian Red Cross Society, Hamilton Branch, Vice-President.
 Cosmos Imperial Mills Ltd., Vice-President.
 Turner Company of Canada Ltd., J. Spencer, Director.
 Duro Aluminum Ltd., Vice-President.
 Duro Metal Wares Ltd., Director.
 Hamilton Cotton Co. Ltd., The, President and Gen. Manager.
 Trent Cotton Co. Ltd., President.
 Landed Banking & Loan Co., Vice-President.
 Peninsular Products Ltd., President.
 Remington Rand Ltd., Director.
 Storms Contracting Co. Ltd., Director.
 Tamahaac Club of Hamilton, Governor.

BANKING AND COMMERCE
THE ROYAL BANK OF CANADA

1597

HEAD OFFICE

MONTREAL, February 7, 1944.

The Honourable the MINISTER OF FINANCE,
Ottawa, Ont.

SIR,—Complying with the requirements of Section 113, Subsection 2, of the Bank Act, I have the honour to inform you that at the Annual General Meeting of the Shareholders of this bank held on January 13th last, the following were elected Directors for the ensuing year:—

W. F. Angus
Rt. Hon. Viscount Bennett, P.C.
John Burns
Harold Crabtree, C.B.E.
Arthur Cross
G. A. Dobbie
Sydney G. Dobson
J. D. Johnson
Ray Lawson, O.B.E.
N. L. Leach
Gordon W. MacDougall, K.C.
W. H. Malkin
G. MacGregor Mitchell
G. H. Montgomery, K.C.
John S. Norris
Lt.-Col. W. E. Phillips, C.B.E., D.S.O., M.C.
Conrad S. Riley
Howard P. Robinson
John T. Ross
Paul F. Sise
G. Harrison Smith
Cyril W. Stairs
James McG. Stewart, C.B.E., K.C.
W. Taylor-Bailey
Norman Urquhart
Morris W. Wilson
Arthur B. Wood
Hon. William C. Woodward

At a subsequent meeting of the Board of Directors, Mr. Morris W. Wilson was re-elected President, and Messrs. W. F. Angus and S. G. Dobson Vice-Presidents.

We are enclosing return with the name and address of each Director, together with a list of the banks, firms, companies and corporations of which they are directors or partners.

I have the honour to be, Sir,

Your obedient servant,

(Sgd). S. G. DOBSON,

General Manager

William F. Angus, Dominion Bridge Co. Ltd., P.O. Box 280, Montreal.

Agency of Canadian Car and Foundry Co. Ltd.
Beauharnois Light, Heat and Power Co.
Bell Telephone Company of Canada.
Canadian Car and Foundry Co., Ltd.
Canadian General Transit Company Limited.
Canadian Locomotive Co. Ltd.
Dominion Bridge Co. Ltd.
Dominion Engineering Co. Ltd.
Dominion Engineering Works, Ltd.
Dominion Hoist and Shovel Co. Ltd.
Eastern Canada Steel and Iron Works, Ltd.
Foundation Company of Canada, Ltd.
Intercolonial Coal Company
Montreal Light, Heat and Power Co.
Montreal Light, Heat and Power Cons.
Montreal Trust Company.
North American Telegraph Co. Ltd.
Northern Electric Co. Ltd.
Robb Engineering Works, Ltd.
Sault Structural Steel Co. Ltd.
United Shipyards, Ltd.
Walmsley & Co. (Canada) Ltd., Chas.

STANDING COMMITTEE

Rt. Hon. the Viscount Bennett, P.C., K.C., Juniper Hill, Mickleham, Surrey, England.
 The E. B. Eddy Company Ltd.
 The Weston Biscuit Company (Wales) Ltd.

John Burns, % Burns & Co. Ltd., Calgary, Alberta.
 Burns & Company, Ltd.
 Burns Foundation, Ltd.
 Burns Holdings, Ltd., P.
 Burns Ranches, Ltd., P.
 Consolidated Fruit Co. Ltd.
 Dominion Bridge Company, Ltd.
 Metals, Ltd.
 Palm Dairies, Ltd.
 Burns Coal Mines Ltd., P.

(This list amended under covering letter dated Feb. 21st, 1944, by adding Burns Coal Mines Ltd. and removing Associated Dairies Ltd. and Burns Agencies Ltd.)

Harold Crabtree, C.B.E., Allied War Supplies Corporation, 1235 McGill College Avenue, Montreal.
 Adams Paper Co. Inc. (Wells River, Vt.).
 Alliance Paper Mills, Ltd.
 Allied War Supplies Corporation.
 Buntin Gillies & Co. Ltd.
 Canada Paper Company.
 Canada Paper "Wholesale" Ltd.
 Dominion Tar & Chemical Co. Ltd.
 Don Valley Paper Company, Ltd.
 Empire Cotton Mills, Ltd.
 Federal Paper Co. Ltd.
 Fraser Companies, Ltd.
 Fraser Paper, Ltd.
 Fraser Realities, Ltd.
 Halls Paper Co. Ltd., Fred W.
 Kilgour's Ltd.
 Montreal Trust Company.
 Restigouche Company, Ltd.
 Schofield Paper Company, Ltd.
 Smith Paper Mills, Ltd., Howard.
 Sun Life Assurance Company of Canada.
 Woods Manufacturing Co. Ltd.

Arthur Cross, Dominion Steel and Coal Corporation, Ltd., Canada Cement Building, Montreal.
 Acadia Coal Co. Ltd.
 Canada Iron Foundries, Ltd.
 Canada Steamship Lines, Ltd.
 Canadian Bridge Company.
 Canadian Collieries (Dunsmuir) Ltd.
 Canadian Steel Corporation.
 Canadian Tube & Steel Products Co. Ltd.
 Cruiser Shipping Company.
 Cumberland Rly. & Coal Co.
 Dominion Coal Co., Ltd.
 Dominion Shipping Company.
 Dominion Steel & Coal Corporation, Ltd.
 Eastern Car Co. Ltd.
 Empire Housing Company.
 Essex Terminal Railway.
 Globe Industries, Ltd.
 Graham Nail & Wire Products, Ltd.
 Halifax Shipyards, Ltd.
 Montreal Trust Company.
 McLeod River Hard Coal Co. (1941) Ltd.
 Napierville Junction Railway
 Nova Scotia Steel & Coal Co., Ltd.
 Old Sydney Collieries, Ltd.
 Peck Rolling Mills, Ltd.
 Pender & Company, Jas.
 St. Lawrence Wire Co.

Sarnia Fence Company.
 Seaboard Power Corporation.
 Security Fence Company.
 Sun Life Assurance Company of Canada.
 Sydney & Louisburg Railway.
 Sydney Lumber Company.
 Trenton Industries, Ltd.
 Trenton Steel Works, Ltd.
 Vancouver Island Coals Ltd.
 Wellex Securities, Ltd.
 Western Fuel Corporation of Canada, Ltd.

G. A. Dobbie, Esq., Galt, Ont.
 British American Oil Company, Ltd..
 Canadian Brass Company, Ltd.
 Cockshutt Plow Co., Ltd.
 Dominion Life Assurance Company.
 Frost & Wood Co., Ltd.
 Gypsum Lime & Alabastine, Ltd.
 Lake Erie & Northern Rlwy. Co.
 Mercury Mills, Ltd.
 Minnesota & Ontario Paper Company.
 Newlands & Co. Ltd.
 Slingsby Manufacturing Co. Ltd.
 Stauffer-Dobbie, Ltd.
 Twin City Rapid Transit Company, Minneapolis, Minn.
 United Corporations, Ltd.
 Waterloo Trusts and Savings Company.

Sydney G. Dobson, The Royal Bank of Canada, Montreal.
 Montreal Trust Company.

John D. Johnson, Canada Cement Company, Ltd., Canada Cement Building, Montreal
 Belding-Corticelli, Ltd.
 Canada Cement Company, Ltd.
 Canada Cement Transport, Ltd.
 Canadian Foreign Investment Corporation, Ltd.
 Citadel Merchandising Co. Ltd.
 Globe Indemnity Company of Canada.
 Ingonish Gypsum Co., Ltd.
 Liverpool & London & Globe Insurance Co. Ltd., (Canadian Board).
 Liverpool-Manitoba Assurance Company.
 Montreal Trust Company.
 National Cement Company.
 National Liverpool Insurance Company.
 Niagara Peninsula Railway Company.
 Nova Scotia Gypsum Company, Ltd.
 Price Brothers & Company, Ltd.
 St. Lawrence Land Company.
 Smith Paper Mills, Ltd., Howard.
 Thurlow Railway Company.

Ray Lawson, O.B.E., Lawson & Jones, Ltd., London, Ont.
 Canadian Sales Check Book Co., Ltd.
 Dominion Warehousing Company, Ltd.
 Federal Aircraft, Ltd.
 Fireproof Warehouses, Ltd.
 Granger-Taylor, Ltd.
 Great Lakes Paper Company, Ltd.
 Holeproof Hosiery Company of Canada, Ltd., The.
 Hyman Company, Ltd., The C. S.
 International Lithographing Company Ltd.
 Lawson & Jones, Ltd.
 Lawson Lithographing & Folding Box Co. Ltd.
 London & Western Trusts Co., Ltd., The.
 Maritime Paper Products, Ltd., The.
 Mortimer, Ltd.
 Northern Life Assurance Co. of Canada.
 Royal Print & Litho. Co. Ltd., The.
 Strike-Rite Matches, Ltd.
 Toronto General Insurance Company.

Norman L. Leach, Searle Grain Company, Ltd., 365 Grain Exchange Building,
 Winnipeg, Man.
 Grain Insurance & Guarantee Company.
 Home Grain Company, Ltd.
 Leach Investments, Ltd.
 Manitoba Sugar Company, Ltd.
 Royal Trust Company—Member, Winnipeg Advisory Board.
 Searle Farms.
 Searle Grain Company, Ltd.
 Searle Securities Company, Ltd.
 Searle Terminal, Ltd.

Gordon W. MacDougall, K.C., Aldred Building, Montreal.
 Canadian Ecuadorian Cacao Company, Ltd.
 Canadian Light & Power Company, Ltd.
 Canadian Marconi Company, Ltd.
 Canmar Investment Company, Ltd.
 Clarendon Plantations, Ltd.
 MacDougall, Macfarlane, Scott & Hugessen.
 Merck & Company, Ltd.
 Montreal Tramways Company.
 Montreal Trust Company.
 Morant Steamship Company, Ltd.
 St. Catharine Estates, Ltd.
 Shawinigan Water & Power Company.
 United Securities, Ltd.

W. H. Malkin, "Southland", Kerrisdale, Vancouver, B.C.
 B.C. Pulp & Paper Company, Ltd.
 Canadian Reciprocal Underwriters (Member, Advisory Committee)
 Coalmont Collieries, Ltd.
 Dominion Life Assurance Company.
 Pacific Coast Fire Insurance Company.

G. MacG. Mitchell, 85 Victoria Road, Halifax, N.S.
 Avon River Power Company, Ltd.
 Barrington Electric Company, Ltd., The.
 British Aeroplane Engines, Ltd.
 Canadian Wright, Ltd.
 Chester Light & Power Company, Ltd.
 Edison Electric Light & Power Company of Springhill.
 Foundation Company of Canada, Ltd.
 Foundation Maritime, Ltd.
 International Power Company, Ltd.
 Maritime Towing & Salvage, Ltd.
 Milton Hydro-Electric Company, Ltd., The.
 Mitchell & Sons, Ltd., G. P.
 Nova Scotia Light & Power Company, Ltd.
 Western Nova Scotia Electric Company, Ltd.

G. H. Montgomery, K.C., Montgomery, McMichael, Common, Howard, Forsyth & Ker,
 360 St. James Street, West, Montreal.
 Beauharnois Light, Heat & Power Co.
 Building Products, Ltd.
 Canada Steamship Lines, Ltd.
 Canadian International Paper Company
 Canadian Lake Carriers.
 Canadian Light & Power Company.
 Canadian Spool Cotton Company.
 Dominion Bridge Company, Ltd.
 Dominion Engineering Works, Ltd.
 Dominion Steel & Coal Corporation.
 Halifax Shipyards, Ltd.
 Hillcrest-Mohawk Corporation.
 Investment Bond & Share Corporation.
 Keystone Transports, Ltd.
 Lewis, Apedaile & Hanson, Inc.
 Montgomery, McMichael, Common, Howard, Forsyth & Ker.
 Montreal Coke and Manufacturing Company.
 Montreal Island Power Company.
 Montreal Light, Heat & Power Cons.
 Montreal Tramways Company.

Montreal Trust Company.
 North American Life Assurance Company.
 Pemberton Smith & Company.
 Provincial Transport Company.
 Trenton Steel Works, Ltd.
 United Corporations, Ltd.
 United Securities, Ltd.

John S. Norris, Montreal Light, Heat & Power Cons., 107 Craig Street, West, Montreal.
 Allied War Supplies Corporation.
 Beauharnois Land Company.
 Beauharnois Light, Heat & Power Company.
 Canadian Light & Power Company.
 Cedars Rapids Manufacturing & Power Company.
 Coteau Rapids Transmission Company Ltd.
 Equity Securities Corporation.
 Hydro-Electric Bond & Share Corporation.
 Imperial Life Assurance Company of Canada.
 Industrial Development & Service Co. Ltd.
 Keystone Transports, Ltd.
 Lachine Rapids Hydraulic & Land Co.
 Marquette Construction Corporation.
 Montreal Coke & Manufacturing Company.
 Montreal Gas Company.
 Montreal Island Power Company.
 Montreal Land & Development Co. Ltd.
 Montreal Light, Heat & Power Company.
 Montreal Light, Heat & Power Consolidated.
 Montreal & St. Lawrence Light & Power Co.
 Montreal Trust Company.
 Norfolk Investors Limited.
 Provincial Light, Heat & Power Company.
 Quebec-New England Hydro-Electric Corporation.
 Realities Securities, Limited.
 Royal Electric Company.
 Standard Light & Power Company.
 Tram & Power Limited.
 Union Investors Limited.
 United Securities Limited.

Lieut.-Colonel W. E. Phillips, C.B.E., D.S.O., M.C., Oshawa, Ont.
 Canadian Industrial Investments Ltd.
 Cutting Tools & Gauges Ltd.
 Duplate Canada Limited.
 Duplate Tool & Die Ltd.
 Duplate (Windsor) Ltd.
 Fiberglass Canada Limited.
 Massey-Harris Company, Ltd.
 Phillips Company Limited, W. E.
 Phillips Glass Co. Ltd., W. E.
 Research Enterprises, Limited.
 Rogers Majestic Limited.
 Safety Glass Standards Ltd.
 Steep Rock Iron Mines Ltd.
 Trusts & Guarantee Co. Ltd., The.

C. S. Riley, The Northern Trusts Company, Winnipeg, Man.
 Beaver Lumber Company.
 Canadian Fire Insurance Company, The.
 Canadian Indemnity Company, The.
 Galt Ltd., G. F. & J.
 Great West Life Assurance Company.
 Hudson's Bay Company—Member of Can. Comm. and of London Board.
 Insurance & General Agency, Ltd.
 Northern Trusts Company, The.
 Winnipeg Electric Company.

Howard P. Robinson, The New Brunswick Telephone Co., Ltd., Saint John, N.B.
 Bathurst Power & Paper Company.
 Canadian International Paper Company.

Canadian Press.
 Eastern Canada Coastal Steamships Ltd.
 Famous Players Canadian Corporation.
 Maritime Publishing Company.
 Maritime Trust Company, The.
 New Brunswick Broadcasting Co. Ltd.
 New Brunswick Cold Storage Co. Ltd., The.
 New Brunswick Publishing Co. Ltd., The.
 New Brunswick Telephone Co. Ltd., The.
 R. D. Robinson Publishing Co.
 St. Martins Telephone Company.

John T. Ross, 110 St. Peter Street, Quebec City.
 Quebec Fire Assurance Company.
 Ross Brothers & Company, Ltd.

Paul F. Sise, Room 1600 Beaver Hall Building, Montreal.
 Amalgamated Electric Corporation, Ltd.
 Bell Telephone Company of Canada.
 Belding-Corticelli, Ltd.
 Campbell Finance Corporation, Ltd.
 Canada Steamship Lines, Ltd.
 Canadian Radio Patents, Ltd.
 Carter White Lead Company of Canada, Ltd.
 Dominion Bridge Company, Ltd.
 Dominion Engineering Works, Ltd.
 Dominion Sound Equipment, Ltd.
 Industrial Acceptance Corporation
 Industrial Factors Corporation
 Lake of the Woods Milling Company
 Laurentian Investment Company
 Montreal Trust Company
 Northern Electric Company, Ltd.
 North American Telegraph Co., Ltd.
 Price Brothers & Company, Ltd.
 Shawinigan Water and Power Co., Ltd.
 Sherwin-Williams Company of Canada, Ltd.
 Thermionics, Ltd.

G. Harrison Smith, Imperial Oil Limited, 56 Church Street, Toronto 2, Ont.
 Andian National Corporation, Ltd.
 Canadian General Electric Company, Ltd.
 Canadian General Investments, Ltd.
 Dalhousie Oil Company
 Imperial Life Assurance Company of Canada
 Imperial Oil, Limited
 Imperial Pipe Line Company
 International Petroleum Co., Ltd.
 Northwest Company
 Rogers Radio Broadcasting Co. Ltd.
 Royalite Oil Company
 Standard Radio, Ltd.
 Tropical Oil Company

Cyril W. Stairs, Messrs. Wm. Stairs Son & Morrow, Halifax, N.S.
 Consumers Cordage Co. Ltd.
 Eastern Trust Company
 Moirs Limited
 Nova Scotia #17 Elementary Flying Training School Limited
 Wm. Stairs Son & Morrow, Ltd.

Jas. McG. Stewart, C.B.E., K.C., "Braemar," Cobourg Road, Halifax, N.S.
 Anglo-Canadian Securities Corporation
 Associated Investors, Ltd.
 Avon River Power Company, Ltd.
 Barrington Electric Co. Ltd.

Brandram-Henderson, Ltd.
 Canada Cement Company, Ltd.
 Canadian Apartment Company, Ltd.
 Chester Electric Company, Ltd.
 Eastern Telephone and Telegraph Co. Ltd.
 Edison Electric Light Company, Ltd.
 Great Eastern Corporation, Ltd.
 Lilla B., Ltd.
 Lovat Steamship Co., Ltd.
 Loyalist Shipping Company, Ltd.
 Maritime Fish Corporation Limited
 Maritime-National Fish, Ltd.
 Maritime Paper Products, Ltd.
 Maritime Steel and Foundries, Ltd.
 Markland Shipping Company, Ltd.
 Mersey Paper Company, Ltd.
 Mersey Shipping Company, Ltd.
 Moirs Limited
 Montreal Trust Company
 National Fish Company Limited, The
 Nellie C., Ltd.
 Nova Scotia Construction Company, Ltd.
 Nova Scotia Light and Power Company, Ltd.
 Provincial Investments, Ltd.
 Provincial Oils Limited
 Rover Shipping Company, Ltd.
 Stewart, Smith, MacKeen & Rogers
 Super-Service Stations Ltd.
 United Service Corporation, Ltd.
 Western Nova Scotia Electric Co. Ltd.

W. Taylor-Bailey, Dominion Bridge Company, Limited, P.O. Box 280, Montreal.

Dominion Bridge Company, Limited
 Dominion Engineering Company, Limited
 Dominion Engineering Works, Ltd.
 Dominion Hoist and Shovel Co. Ltd.
 Eastern Canada Steel and Iron Works
 Fairchild Aircraft, Ltd.
 Mitchell Co. Ltd., The Robt.
 National Breweries Ltd., The
 National Drug and Chemical Co. of Canada, Ltd.
 Robb Engineering Works, Ltd.
 St. Lawrence Yacht Company Limited
 St. Maurice Valley Cotton Company Ltd.
 Sault Structural Steel Co. Ltd.
 United Shipyards Ltd.
 Wabasso Cotton Co. Ltd., The
 Walsh Company Limited, R. F.

Norman C. Urquhart, 15 King Street, West, Toronto, Ont

Aunor Gold Mines Ltd.
 Canada China Clay & Silica Company.
 Chartered Trust & Executor Company.
 Forty-four Mines, Ltd.
 Noranda Mines, Ltd.
 San Antonio Gold Mines Ltd.
 Simpsons, Limited.

M. W. Wilson, The Royal Bank of Canada, Montreal.

Beauharnois Light, Heat & Power Company.
 Berkscro Investments, Ltd.
 British Columbia Power Corporation, Ltd.
 Canada Cement Company, Ltd.
 Canadian General Electric Co. Ltd.
 Canadian Pacific Railway Company.
 Capital Investment Corporation of Montreal, Ltd., The.
 Consolidated Bakeries of Canada, Ltd.
 Consolidated Mining & Smelting Co. of Canada.

Dominion Bridge Company Ltd.
 Dominion Engineering Works, Ltd.
 Domwide Land & Development, Ltd.
 Glenora Securities, Inc.
 Montreal Light, Heat & Power Cons.
 Montreal Trust Company.
 Ogilvie Flour Mills Co. Ltd. The.
 Ogilvie Grain Company, Ltd.
 Shawinigan Water & Power Company, The.
 Sun Life Assurance Company of Canada.

Arthur B. Wood, Sun Life Assurance Company of Canada, Dominion Square, Montreal
 Crown Trust Company.
 Phoenix Assurance Company of London, England.
 Smith Paper Mills, Ltd., Howard.
 Sun Life Assurance Company of Canada.

Hon. W. C. Woodward, Government House, Victoria, B.C.
 Britalwood Limited.
 Neon Products of Western Canada, Ltd.
 Union Steamships, Limited.
 Woodward Holdings, Ltd.
 Woodward, Limited, C.
 Woodward Stores, Ltd.
 Woodward's Consolidated, Ltd.

THE DOMINION BANK

TORONTO, 2, 21st December, 1943.

W. C. CLARK, Esq.,
 Deputy Minister of Finance,
 Department of Finance,
 Ottawa, Ont.

Dear SIR,—In conformity with Section 113, Subsection 2, of the Bank Act, I beg to advise you that at the Annual General Meeting of the Shareholders of The Dominion Bank, held on the 8th instant, the following were elected Directors for the ensuing year:—

C. A. Bogert, 405 Dominion Bank Bldg., Toronto.
 Col. The Hon. Dr. H. A. Bruce, M.P., 134 Bloor St. E., Toronto.
 C. H. Carlisle, 600 Dominion Bank Bldg., Toronto.
 R. Y. Eaton, The T. Eaton Co. Ltd., Toronto.
 R. J. Gourley, Beaver Lumber Co. Ltd., Winnipeg.
 Col. The Hon. E. W. Hamber, 540 West Pender St., Vancouver, B.C.
 D. M. Hogarth, C.M.G., 28 King St. West, Toronto.
 J. M. Mackie, 980 St. Catherine St. W., Montreal.
 A. C. Matthews, 1702 Royal Bank Bldg., Toronto.
 R. S. McLaughlin, General Motors of Canada Ltd., Oshawa.
 F. Gordon Osler, 21 Jordan St., Toronto.
 Jos. M. Pigott, Pigott Construction Co. Ltd., Hamilton.
 Robert Rae, The Dominion Bank, Toronto.
 J. Allan Ross, 235 Carlaw Ave., Toronto.
 C. B. Shields, Loblaw Groceries Co. Ltd., Toronto.
 H. H. Williams, 565 Avenue Road, Toronto.

At a subsequent meeting of the Directors, Mr. C. H. Carlisle was elected President, Mr. C. A. Bogert, Chairman of the Board, and Messrs. R. S. McLaughlin and Robert Rae, Vice-Presidents of the Bank.

I enclose a list of the Banks, firms, companies and corporations with which each of the above Directors is connected.

Yours faithfully,

(Sgd.) R. RAE,
General Manager.

Encl.

(This list was amended in January, 1944, to include Mr. John David Eaton and Mr. Arthur W. Holmsted, K.C.—see letters dated January 21 and January 20 respectively.)

BANKS, FIRMS, COMPANIES AND CORPORATIONS WITH WHICH EACH OF THE DIRECTORS OF THE DOMINION BANK IS CONNECTED—1944

Bogert, C. A.—

Chairman of the Board, The Dominion Bank.
 Director, Canada Life Assurance Co., The, Toronto.
 Member of Advisory Committee, Federation for Community Service, Toronto.
 Member of the Canadian and Toronto Advisory Boards, The Salvation Army.
 Director, St. Johns Convalescent Hospital, Newtonbrook, Ont.
 Member of Committee of Direction, United Welfare Fund of Toronto.
 Member of Advisory Board, West End Creche, The, Toronto.

Bruce, Colonel The Hon. Dr. H. A., F.R.C.S. (Eng.) LL.D., M.P.—

Director, The Dominion Bank.
 Vice-President, Canadian Mineral Equities Ltd.
 President, Federal Fire Insurance Co.
 Vice-President, Trusts & Guarantee Co. Ltd.
 Governor, University of Toronto.
 Director, Wellington Fire Insurance Co.
 Director, Wellesley Hospital Ltd.

Carlisle, C. H.—

President, The Dominion Bank.
 President, Canada Bread Co., Ltd., Toronto.
 Director, Canadian General Investments Ltd.
 Director, Dominion Bridge Company, Montreal.
 Chairman, Finance Committee and Director, Goodyear Tire and Rubber Company of Canada Limited, The, Toronto.
 Director, Montreal Trust Company, Montreal.
 President, Wellesley Hospital Ltd.

Eaton, R. Y.—

President, The Eaton Knitting Co. Limited.
 Director, The Dominion Bank.
 Trustee, Toronto General Hospital.
 Governor, Toronto Conservatory of Music.
 Director, National Trust Company, Limited.
 Honorary Vice-President, The Art Gallery of Toronto.
 Member of Executive Committee, Y.M.C.A. National War Services Committee.

Gourley, R. J.—

Director, The Dominion Bank.
 President, Beaver Lumber Company, Limited.
 Director, Home Investment & Savings Association, The.
 Member, Canadian Committee, Hudson's Bay Company.
 Director, Manitoba Bridge & Iron Works Limited.
 Director, Monarch Life Assurance Company, The.
 Director, Northern Trusts Company, The.
 Director, Western Steel Products Corporation, Ltd.
 Associate Companies of Beaver Lumber Co., Ltd.
 President, Anderson Lumber Company Limited.
 President, Beaver (Alberta) Lumber Limited.
 President, Bell Lumber Company Limited.
 President, Brown Lumber Limited, J. E.
 President, Cadillac Lumber Company Limited
 President, Crowe Company Limited, J. J.
 President, Frontier Lumber Company Limited.
 President, Macdonald Lumber Limited, A. F.
 President, McDiarmid Lumber Company Limited.
 President, Model Hardwares Limited.
 President, Taylor Lumber Company Limited.
 President, Tripp Lumber Company Limited.
 Director, Western Manufacturing Company Limited.
 President, Empire Sash & Door Co. Ltd.

Hamber, Colonel The Hon. E. W., LL.D.—

Director, The Dominion Bank.
 Director, Canadian Pacific Railway.
 President, Consolidated Estates Limited.
 Director, Greencroft Stables Limited.
 President, Hastings Sawmill Company Limited.

President and Managing Director, London & Canadian Investment Company Limited.

President, Middlesboro Collieries Limited.

Director, Minnehada Stock Farms Limited.

Director, Pacific Mills Limited.

Director, Toronto General Trusts Corporation.

Vice-President, Yale Development Co. Limited.

Hogarth, D. M., C.M.G.—

Director, The Dominion Bank.

President, Central Porcupine Mines Limited.

Director, Coniaurum Mines Ltd.

President, Little Long Lac Gold Mines Limited.

Director, MacLeod-Cockshutt Gold Mines Limited.

Director, Madsen Red Lake Gold Mines Limited.

President, Mercury Gold Mines Limited.

President, Montclerg Mines Limited.

President, Nicholson Gold Mines Limited.

Director, Nipissing Mines Company Limited.

Vice-President, Oklend Gold Mines Limited.

Director, Pioneer Gold Mines of B.C. Ltd.

Director, Sherritt Gordon Mines Limited.

Director, South American Gold Areas Ltd.

President, Steep Rock Iron Mines Limited.

Director, Sudbury Basin Mines Ltd.

Director, Sudbury Diamond Drilling Co. Ltd.

Vice-President, Transcontinental Resources Ltd.

President, Transcontinental Timber Co. Ltd.

Director, Ventures Limited.

Mackie, J. M.—

Director, The Dominion Bank.

President, Brinton-Peterboro Carpet Co. Ltd.

President, Canadian Converters' Co. Ltd.

Vice-President, Belding-Corticelli Ltd.

Director, Manufacturers Mutual Fire Insurance Company, Providence, R. I.

Director, Paton Manufacturing Co. Ltd.

Director, Ritz-Carlton Hotel Co. of Montreal Ltd.

Managing Director, Hillcrest Collieries Limited (In receivership).

Matthews, A. C.—

Director, The Dominion Bank.

Vice-President, Blue Ribbon Corporation Limited.

President, Canada Malting Co. Limited.

Director, Canada North-West Land Company, Ltd.

Director, Canadian Surety Company.

Director, Confederation Life Association, The.

Director, Kirkland Lake Gold Mines Ltd.

Director, Northern Canada Mining Corporation.

Director, St. Johns Convalescent Hospital.

Vice-President, Winnipeg Western Land Corporation, Ltd.

McLaughlin, R. S.—

Vice-President, The Dominion Bank.

Director, Cadillac Motor Car Company of Canada Limited.

Director, Canadian General Electric Company, Limited.

President, Chevrolet Motor Company of Canada, Limited.

Director, Canadian Pacific Railway.

Director, Consolidated Mining and Smelting Co. of Canada, Ltd.

President, General Motors of Canada, Limited.

President, General Motors Products of Canada, Limited.

Vice-President, General Motors Corporation (U.S.A.)

Director, Granite Club Ltd.

Director, International Nickel Co. of Canada, Limited.

Director, Long Point Company.

Director, McIntyre-Porcupine Mines Ltd.

President, McLaughlin Motor Car Company, Limited.

Director, Moore Corporation, Limited.

Director, Ontario Jockey Club.

President, Olds Motor Works of Canada Limited.

President, Pontiac Motor Company of Canada Limited.

Director, Royal Trust Company.

Director, Seignior Club.

Osler, F. Gordon—

Director, The Dominion Bank.
 President, Canada Permanent Mortgage Corporation.
 President, Canada Permanent Trust Company, The.
 Vice-President, Canada North West Land Co. Ltd., The.
 Vice-President, Canada Saskatchewan Land Co. Ltd.
 Chairman of the Board, Canadian Surety Company.
 Director, Consolidated Bakeries of Canada Ltd.
 Director, Consolidated Mining & Smelting Co. of Can. Ltd.
 Director, Consumers' Gas Company of Toronto, The.
 Vice-President, Humber River Real Estate Company.
 Vice-President, Manufacturers Life Insurance Company.
 Executor, Mrs. Eliza Smith Estate.
 Partner, Osler & Hammond.
 Trustee, Royal Ontario Museum.
 Executor, R. A. Smith Estate.
 Executor, Sir Edmund B. Osler Estate.
 Director, Steel Company of Canada Limited, The.
 Member, Synod of the Diocese of Toronto Investment Committee, The.
 Trustee, Toronto General Hospital.
 Member of Corporation, Trinity College.
 Member of Governing Body, Trinity College School.
 Governor, University of Toronto.
 Vice-President, Wellesley Hospital Limited, The.
 President, Winnipeg Western Land Corporation Ltd.

Pigott, Joseph M.—

Director, The Dominion Bank.
 Director, Atlas Steels Limited.
 Director, Canada Steamship Lines Ltd.
 Director, Consolidated Fire & Casualty Insurance Company, Toronto.
 Director, Landed Banking & Loan Company, The, Hamilton.
 President, Pigott Construction Co. Limited, Hamilton.
 President, Pigott Realty Limited, Hamilton.
 President, Wartime Housing Limited.

Rae, Robert—

Vice-President, The Dominion Bank.
 Vice-President, Penny Bank of Ontario.
 Chairman of the Board, Granite Club Limited.
 Vice-President, Canadian Chamber of Commerce.
 President, St. Andrew's Society of Toronto.

Ross, J. Allan—

Director, The Dominion Bank.
 Trustee, Hospital for Sick Children.
 President, General Manager and Director, Wm. Wrigley Jr. Company Limited of Canada.

Shields, C. B.—

Director, The Dominion Bank.
 Director, Canada Bread Co. Limited.
 Director, Great Lakes Paper Co. Ltd.
 Vice-President and General Manager, Loblaw Groceries Co. Limited.

Williams, H. H.—

Director, The Dominion Bank.
 Hon. Chairman, Hospital for Sick Children.
 Director, Imperial Life Assurance Company.

THE DOMINION BANK

Toronto, 21st January, 1944.

W. C. CLARK, Esq.,
 Deputy Minister of Finance,
 Ottawa.

Dear SIR,—In conformity with Section 113. Subsection 2, of the Bank Act, I beg to advise you that at a meeting of the Directors of The Dominion Bank held on the 20th instant, Mr. John David Eaton was elected a Director of the Bank.

I enclose a list of the Banks, firms, companies, and corporations with which he is connected.

Yours faithfully,

(Sgd.) R. RAE,
 General Manager.

John David Eaton—Toronto

The T. Eaton Co. Ltd., President.

The T. Eaton Co. Ltd., of Montreal, President.

The T. Eaton Maritimes Ltd., President.

The Canadian Department Stores Ltd., President.

The T. Eaton Drug Co. Ltd., President.

The T. Eaton Life Assurance Company, President.

The T. Eaton Realty Co. Ltd., President.

The T. Eaton Co. Western Ltd., President.

The Canadian National Exhibition, Honorary Director.

The Air Cadet League of Canada, Director.

Wartime Council (Toronto branch), Can. Red Cross Society, Member.

National Research Council (War Technical and Scientific Dev't Com.), Honorary Member.

THE DOMINION BANK

TORONTO, 20th January, 1944.

W. C. CLARK, Esq.,
Deputy Minister of Finance,
Ottawa.

DEAR SIR,—In conformity with Section 113, Subsection 2, of the Bank Act, I beg to advise you that at a meeting of the Directors of The Dominion Bank held on the 14th instant, Mr. Arthur W. Holmested, K.C. was elected a Director of the Bank.

I enclose a list of the Banks, firms, companies and corporations with which he is connected.

Yours faithfully,

(Sgd.) R. RAE,

General Manager.

Arthur W. Holmested, K.C.—Toronto.

Page-Hersey Tubes Ltd., President.

Page-Hersey Export Co. Ltd., President.

Page-Hersey Trading Co. Ltd., President.

Nepage Securities Ltd., President.

Dominion Telegraph Securities Ltd., President.

Anthes-Imperial Ltd., Director.

Canada Bread Co. Ltd., Director.

Central Porphyry Contacts Ltd., Director.

Continental Kirkland Mines Ltd., Director.

Empire-Hanna Coal Co. Ltd., Director.

Imperial Iron Corp. Ltd., Director.

Lombard Realty Co. Ltd., Director.

Morrison Brass Corp. Ltd., Director.

Port Hope Sanitary Mfg. Co. Ltd., Director.

The James Morrison Brass Mfg. Co. Ltd., Director.

Toburn Gold Mines Ltd., Director.

Holmested, Sutton, Hill & Kemp, Senior Partner.

BANQUE CANADIENNE NATIONALE

MONTREAL, January 10, 1944.

To the Honourable the Minister of Finance, Department of Finance, Ottawa.

SIR,—We wish to inform you that the Shareholders of this Bank, at the Annual General Meeting held on the 8th instant, elected as Directors the following duly qualified Shareholders:

Mr. L. J. Adjutor Amyot

The Honourable C. P. Beaubien

Mr. Armand Chaput

Mr. Auguste Desilets, K.C.

*Sir George Garneau

Mr. C. E. Gravel

Mr. Chas. Laurendeau, K.C.

Mr. Beaudry Leman

Mr. A. J. Major

The Honourable Jacob Nicol

Mr. Leo G. Ryan

At a meeting of the Board which took place at the issue of the Annual Meeting, the Directors Elected Mr. Beaudry Leman as President and Managing Director of the Bank, Sir George Garneau and Mr. Chas. Laurendeau, K.C., as Vice Presidents.

We are enclosing herewith a copy of the Record of attendance of the Directors of the Bank at meetings of the Board during the last financial year.

Faithfully yours,

(Sgd.) LEON LORRAIN,
General Secretary.

(* Sir George Garneau died February, 1944.)

(This list was amended in May, 1944, to include the name of Mr. Jean-Marie Dessureault elected to the Board of Directors to fill the vacancy created by the death of Sir George Garneau—see letter of May 12, 1944, attached.)

BANQUE CANADIENNE NATIONALE

May 12, 1944.

To the Honourable the MINISTER OF FINANCE,
Parliament Buildings,
Ottawa.

SIR,—We wish to inform you that, at a meeting of the Board of Directors of this Bank, held this morning at Montreal and at which a legal quorum was present, Mr. Jean-Marie Dessureault, of Quebec City, was elected to the Board of Directors to fill the vacancy created by the death of Sir George Garneau.

Mr. Dessureault is president of J. M. Dessureault Inc. and of J. M. Dessureault Lumber Co. and director of Quebec Land Co. and of La Caisse d'Economie Notre-Dame de Quebec.

Mr. Dessureault's address is 170, rue de la Canardiere, Quebec City.

Faithfully yours,

(Sgd.) LEON LORRAIN,
General Secretary.

Mr. Jean-Marie Dessureault, 170 rue de la Canardiere, Quebec City.

J. M. Dessureault Inc.

J. M. Dessureault Lumber Co.

Quebec Land Company.

La Caisse d'Economie de Notre-Dame de Quebec.

BANQUE CANADIENNE NATIONALE

*Directors Elected at the Annual General Meeting of Shareholders held on the
8th January, 1944*

Names of Directors—Address—Banks, firms, companies or corporations of which a director or partner.

Mr. L. J. Adjutor Amyot, 45 Dorchester St., Quebec—

Dominion Corset Co. Ltd.

Quebec Box Co. Ltd.

Canada Corset Steel & Wire Co.

Compagnie de placements St. Georges Ltee.

Compagnie Charest Ltee.

Compagnie Amyot Ltee.

Compagnie Dorchester Ltee.

General Trust of Canada.

Caisse d'Economie de Notre-Dame de Que.

Shawinigan Water & Power Co.

Holt Renfrew & Co. Ltd.

National Battlefields Commission.

(List amended Feb. 25, 1944, by adding *The Bell Telephone Co. of Canada.*)

Senator C. P. Beaubien, 84 Notre Dame St. W., Montreal—

L. G. Beaubien & Cie. Ltee.

Beaubien Ltee.

British American Oil Co. Ltd.

Canadian Car & Foundry Co. Ltd.

Canadian Steel Foundries Ltd.

The Pratt & Letchworth Co. Ltd.

*Compagnie d'assurance du Canada.

Credit Foncier Franco-Canadien.

Dominion Steel & Coal Cpn. Ltd.

Dominion Coal Co. Ltd.

Nova Scotia Steel & Coal Co. Ltd.

Beaubien, Gadbois Dufresne

Halifax Shipyards.

James Pender Company.

(*English translation: Fire Insurance Co. of Canada—according to information received from Dept. of Insurance.)

Mr. Armand Chaput, Couvrette-Sauriol Ltee, 50 de Bresoles St., Montreal—

Commonwealth African Ltd.

Couvrette-Sauriol Ltee.

Bd. of Governors of Notre-Dame Hosp.

Royal Automobile Club.

Mr. Auguste Desilets, K.C., Grand'Mere, P.Q.—

Desilets et Deshaies.

Siscoe Gold Mines Ltd.

Siscoe Metals Ltd.

†Sir George Garneau, 71 Dalhousie St., Quebec—

Bell Telephone Co.

Caisse d'Economie Notre-Dame de Quebec.

Donnacona Paper Co.

Garneau Limitee.

Trust General du Canada.

(†Died February, 1944.)

Mr. C. E. Gravel, 84 Notre Dame St. W., Montreal—

Canada Linseed Oil Mills Ltd.

Dominion Oilcloth & Linoleum Co. Ltd.

Manufacturers Holdings Ltd.

St. Lawrence Flour Mills Co. Ltd.

Bell Telephone Co. of Canada.

Montreal Tramways Co. Ltd.

Belding-Corticelli Co. Ltd.

Mr. C. Laurendeau, K.C., 84 Notre Dame St. W., Montreal—

Laurendeau & Laurendeau.

The Montreal Cottons Ltd.

Societe Nationale d'Assurances.

Societe Nationale de Fiducie.

Trust General du Canada.

Mr. Beaudry Leman, 112 St. James St. W., Montreal—

Consolidated Bakeries of Canada Ltd.

Delaware and Hudson Railroad Corp.

Fairchild Aircraft Co.

Trust General du Canada.

Montreal Tramways Company.

Napierville Junction Railway Co.

Ogilvie Flour Mills Co.

Provincial Transport Company.

Shawinigan Water & Power Co.

Mr. A. J. Major, 175 Wilbrod St., Ottawa—

National Grocers Co. Ltd.

Capital Trust Corporation.

Rose Gold Mining Co. Ltd.

Pigeon & Major Ltd.

Cie Beigo-Canadienne de Credit

Major Investments Ltd.

United Provinces Ins. Co.

Ottawa Car & Aircraft Ltd

Ottawa Electric Rly. Co.

Consul de Belgique.

Hon. Jacob Nicol, 4 Wellington St. South, Sherbrooke, P.Q.—

Continental Life Insurance Co.

La Cie Mutuelle du Commerce contre l'incendie.

La Mercantile.

La Compagnie d'Assurance Canadienne Nationale.

La Tribune Limitee.

L'Evenement Limitee.

Le Nouvelliste Limitee.

Le Soleil Limitee.

Missisquoi & Rouville Mutual Fire Ins. Co.

Quebec Apartments Ltd.

Sherbrooke Trust Company.

Stanstead & Sherbrooke Insurance Co.

The Sterling Insurance Co. of Canada.

Trust General du Canada.

Wellington Fire Insurance Co.

Southern Canada Power Co.

Mr. Leo G. Ryan, 378 St. Paul St. West, Montreal—

Canadian Reciprocal Underwriters.

Chemicals Limited.

Fairchild Aircraft Ltd.

Mallinckrodt Chemical Works Ltd.

Monsanto (Canada) Ltd.

Smith & Nephew Ltd.

The Wingate Chemical Co. Ltd.

Trust General du Canada.

Zinc Oxide Company.

Given at Montreal, under the hand of the General Secretary of the Banque Canadienne Nationale, this 24th day of January, 1944.

(Sgd.) LEON LORRAIN.

IMPERIAL BANK OF CANADA

TORONTO, 2nd December, 1943.

The Minister of Finance, Ottawa.

Dear Sir,—Pursuant to Sub-section 2 of Section 113 of The Bank Act, we enclose herewith Return showing the name and address of each Director elected at our Annual General Meeting on 24th November, 1943, together with a list of the banks, firms, companies and corporations of which he is a director or partner, and the names of the President, and the Vice-Presidents.

Yours Truly,

(Sgd.) J. HADDEN, *Secretary.*

RETURN SHOWING DIRECTORS OF IMPERIAL BANK OF CANADA AS REQUIRED UNDER SUB-SECTION 2 OF SECTION 113 OF THE BANK ACT

A. E. Phipps, Chairman of Board, Imperial Bank of Canada, Toronto.

R. S. Waldie, President, Imperial Bank of Canada, Toronto.

Col. J. F. Michie, President, Michie & Co., Ltd., Merchants, Toronto.

H. T. Jaffray, General Manager, Imperial Bank of Canada, Toronto.

*G. C. Heintzman, President, Heintzman & Co. Ltd., Piano Mfrs., Toronto.

J. W. Hobbs, President, The Consolidated Plate Glass Co. of Canada, Ltd., Toronto.

W. C. Laidlaw, President, R. Laidlaw Lumber Co. Ltd., Toronto.

J. A. Northway, President, John Northway & Son Ltd., Merchants, Toronto.

G. H. Aikins, K.C., Partner, Messrs. Aikins, Loftus, MacAulay, Turner, Thompson and Tritschler, Barristers, Winnipeg.

H. E. Sellers, President, Melady, Sellers & Co. Ltd., Grain Merchants, Winnipeg.

W. B. Woods, President, Gordon, MacKay & Co. Ltd., Toronto.

Arthur L. Bishop, Civil Engineer, Toronto.

E. E. Buckerfield, President, Buckerfield's Ltd., Vancouver.

C. G. Cockshutt, President, Cockshutt Plow Co. Ltd., Brantford.

Herbert H. Horsfall, President, Canada Wire and Cable Co. Ltd., Leaside, Ont.

H. L. McCulloch, President, Babcock-Wilcox & Goldie-McCulloch Ltd., Galt, Ont.
 W. B. Powell, President, Appleford Paper Products Ltd., Hamilton.

At a subsequent meeting of the Directors of the Bank Mr. A. E. Phipps was elected Chairman of the Board, Mr. R. S. Waldie was elected President and Col. J. F. Michie and Mr. H. T. Jaffray were elected Vice-Presidents.

NOTE:—The above list was amended under covering letter from the Bank dated April 12th, 1944, by adding the names of:—

J. R. Timmins, of J. R. Timmins & Co., Montreal.

Eliot S. Frosst, President, Charles E. Frosst & Co. Ltd., Montreal.

*Mr. Heintzman died February, 1944.

The following is a List of the Banks, Firms, Companies and Corporations of which the above Directors are Directors or Partners *in addition to* being Director of Imperial Bank of Canada.

A. E. Phipps—

The Toronto General Trusts Corporation.

Niagara Lower Arch Bridge Co. Ltd.

Advisory Board Union Insurance Society of Canton Ltd.

R. S. Waldie—

Scottish Canadian Assurance Corporation.

Confederation Life Association.

General Accident Assurance Company of Canada.

Canada Bread Co. Ltd.

Minnesota and Ontario Paper Co. Ltd.

Col. J. F. Michie—

Michie & Co. Ltd.

General Accident Assurance Co. of Canada.

Scottish Canadian Assurance Corporation.

Confederation Life Association.

Consumer's Gas Co. of Toronto.

The Toronto General Trusts Corporation.

Dominion Transport Co. Ltd.

Blue Ribbon Corporation Ltd.

St. Andrew's College.

H. T. Jaffray—

Penny Bank of Ontario.

G. C. Heintzman (*Died February, 1944*)—

Heintzman & Co. Ltd.

Securities Holding Corporation Ltd.

Cooksville Finance Co.

J. W. Hobbs—

The Consolidated Plate Glass Co. of Canada Ltd.

Continental Life Insurance Company.

Lake of the Woods Milling Co. Ltd.

Scottish Union and National Insurance Co.

Securities Holding Corporation Ltd.

Canadian Pacific Railway Co.

Dominion Glass Co. Ltd.

Dominion Woollens and Worsted Ltd.

Canada Trust Company.

Member of Advisory Committee Canada Trust Co. and Huron and Erie Mortgage Corporation.

Canadian Libbey-Owens Sheet Glass Co.

Huron and Erie Mortgage Corporation.

Algoma Steel Corporation.

Consolidated Mining and Smelting Co. of Canada Ltd.

Walter C. Laidlaw—

R. Laidlaw Lumber Co. Ltd.

Laidlaw Belton Lumber Co. Ltd.

George H. Belton Lumber Co. Ltd.

Windsor Lumber Co. Ltd.

Guelph Lumber Company.

Canada and Dominion Sugar Co. Ltd.

Confederation Life Association.

Ettrick Lumber Co. Ltd.

Consumer's Gas Co. of Toronto.

Toronto General Trusts Corporation.

Canada Malting Co. Ltd.

Federal Fire Insurance Company.

John A. Northway—

John Northway & Son Ltd.
 General Accident Assurance Co. of Canada.
 Northway Co. Ltd.
 Canadian Cannors Ltd.
 Howey Gold Mines Ltd.
 H. S. Falls Co. Ltd.
 Scottish Canadian Assurance Corporation.
 Member of Advisory Board Canada Trust Co. and Huron & Erie Mortgage Corporation.

G. H. Aikins, K.C.—

Aikins, Loftus, MacAulay, Turner, Thompson & Tritschler.
 The Canadian Indemnity Co.
 The London and Western Trusts Co. Ltd.
 Canadian General Securities Ltd.
 General Assets, Ltd.
 Ranger Gold Mines Ltd.
 Western Assets, Ltd.
 The Manitoba Sugar Co. Ltd.
 The Canadian Fire Insurance Co.
 The Great-West Life Assurance Company.
 Canada Permanent Mortgage Corporation.
 Canada Cement Co. Ltd.
 Holt Renfrew & Co. Ltd.

H. E. Sellers—

Melady Sellers & Co. Ltd.
 Federal Grain Limited.
 The Alberta Pacific Grain Co. (1943) Ltd.
 Superior Feed Co. Ltd.
 The Great-West Life Assurance Company.
 Manitoba Bridge and Iron Works Ltd.
 Manitoba Rolling Mills Ltd.
 Maple Leaf Milling Co. Ltd.
 Advisory Board The Royal Trust Co.
 Pacific Elevators Ltd.
 Dominion Glass Co. Ltd.
 Northland Terminals Ltd.
 The Manitoba Sugar Co. Ltd.
 Virden Flying Training School Ltd.

W. B. Woods—

Gordon, MacKay & Co. Ltd.
 C. H. Smith Co. Ltd.
 York Paper Box Co. Ltd.
 Walker Stores Ltd.
 Cobourg Dyers Ltd.
 J. H. Gould Ltd.
 Spencer Stone Ltd.
 York Knitting Mills Ltd.
 Richard Hall, Ltd.
 Holdsworth Ltd.
 Woods and Walker Ltd.
 Production Engineers Ltd. (London, England).
 Woods Brothers and Associates Ltd.
 North American Life Assurance Co.
 Dupont Textiles Ltd.
 Consolidated Piece Dyers Ltd.

Arthur L. Bishop—

The Coniagas Mines Ltd.
 The Coniagas Reduction Co. Ltd.
 Sturgeon River Gold Mines Ltd.
 Lake Expanse Gold Mines Ltd.
 Coniarum Mines Ltd.
 The Toronto General Trusts Corporation.
 The Manufacturers Life Insurance Company.
 Canadian Locomotive Co. Ltd.
 Consumers' Gas Co. of Toronto.
 Ridley College, Board of Governors.

Ridgely Porcupine Gold Mines Ltd.
 Consolidated Mining and Smelting Co. of Canada Ltd.
 Bishop Strachan School Council.
 The Canadian Red Cross Society, Hon. Treasurer.
 The Canadian Red Cross Society, Ontario Division.
 The Canadian Red Cross Society, Toronto Division.
 National Club.
 Kenora Nickel Mines Ltd.
 Toronto Shipbuilding Co. Ltd.
 Amalgamated Larder Mines Ltd.

E. E. Buckerfield—

Buckerfield's Ltd.
 Buckerfield's Wharf Ltd.
 United Farmers Ltd.
 Marpole Grain & Richmond Feed Ltd.
 L. and A. Ranch Ltd.
 B.C. Pea Growers Ltd.
 Sunset Seed Co. Ltd.
 Hall Bryan Ltd.
 Milroy Grain Company.
 Columbia Power Co. Ltd.
 General Utility Co. Ltd.
 Canadian Bakeries Ltd.
 Stevenson Bros. Ltd.
 Home Oil Co. Ltd.
 Home Oil (Brazeau) Ltd.
 Royal Plate Glass and General Insurance Co. of Canada.
 Neon Products of Western Canada Ltd.
 Maple Leaf Milling Co. Ltd.
 Union Steamships Ltd.
 Union Estates Ltd.
 Frank Waterhouse and Co. of Canada Ltd.
 Union Steamship Co. of B.C. Ltd.
 Brewers and Distillers of Vancouver Ltd.
 Columbia-Vanderhoof Power Co. Ltd.

C. G. Cockshutt—

Harding Carpets Ltd.
 Dominion Life Assurance Company.
 Gore District Mutual Fire Insurance Company.
 Brantford Oven and Rack Company.
 Cockshutt Plow Company Ltd.
 Frost and Wood Limited.
 Cockshutt Securities Ltd.
 Slingsby Manufacturing Co. Ltd.
 Slingsby Quebec Limited.
 Slingsby Silks Limited.
 Gypsum Lime and Alabastine, Canada, Ltd.
 Brantford Coach and Body Limited.
 Standard Lime Limited.
 Guelph Carpet and Worsted Spinning Mills Ltd.
 Toronto General Trusts Corporation.
 Plateau Ltd.
 McLeod River Hard Coal Co. Ltd.
 Canadian Collieries Ltd.

Herbert H. Horsfall—

Canada Wire and Cable Co. Ltd.
 Standard Underground Cable Co. Ltd.
 Leaside Housing Co. Ltd.
 Lake St. John Power and Paper Co. Ltd.
 St. Lawrence Corporation Ltd.
 Fleet Aircraft Ltd.
 Consumers' Gas Co. of Toronto.
 Toronto General Trusts Corporation.

H. L. McCulloch—

Babcock-Wilcox and Goldie-McCulloch Limited.
 Galt Metal Industries Ltd.
 Gore District Mutual Fire Insurance Company.
 Waterloo Trust and Savings Company.
 Lake Erie and Northern Railway Company.
 The Goldie and McCulloch Company Limited.

W. B. Powell—
 Appleford Paper Products Limited.
 Aridor Limited.
 Mutual Life Assurance Company of Canada.
 Hamilton Bridge Company Limited.
 Cosmos Imperial Mills Limited.
 Buntin Gillies Limited.
 Perga Containers Limited.
 Royal Trust Company Advisory Board.

IMPERIAL BANK OF CANADA

TORONTO, 12th April, 1944.

The MINISTER OF FINANCE,
 OTTAWA.

DEAR SIR,—Pursuant to Section 113 (2) of The Bank Act we hereby notify you that two vacancies in the membership of the Board of Directors of this Bank have been filled by the election today of the following gentlemen:

Jules R. Timmins, of J. R. Timmins & Co., Montreal
 Eliot S. Frosst, President, Charles E. Frosst & Co. Ltd., Montreal

We enclose list of the banks, firms, companies and corporations of which each of the above is a director or partner in addition to being a director of this Bank.

Yours truly,

(Sgd.) J. HADDEN,
Secretary.

J. R. Timmins

J. R. Timmins & Co.
 Hollinger Consolidated Gold Mines Ltd.
 Labrador Mining and Exploration Co. Ltd.
 Hollinger North Shore Exploration Co. Ltd.
 Wartime Metals Corporation.
 Windsor Hotel Ltd.
 Canadian Arena Co. Ltd.
 Fire Insurance Company of Canada.
 Pamour Porcupine Mines Ltd.
 Quebec Gold Mining Corporation Ltd.
 International Bond and Share Corporation Ltd.
 Chromium Mining and Smelting Corporation Ltd.
 Jerome Gold Mines Ltd.

Eliot S. Frosst

Charles E. Frosst & Co. Ltd.
 Charles E. Frosst & Co. (U.S.A.) Inc.
 Powhatan Investments Inc.
 Vitafeed Concentrates Ltd.
 Associated Clock Industries Ltd.

BARCLAYS BANK (CANADA)

Extract from the Minutes of the Sixteenth Annual General Meeting of the Shareholders of Barclays Bank (Canada) held at the Head Office of the Bank on Tuesday, the 16th November 1943:—

"The Chairman then called for nominations for Directors, and the following, duly qualified, were nominated:—

Mr. Henry Borden, C.M.G., K.C.
 Mr. Julian Stanley Crossley
 Mr. Charles Strange Macdonald, M.A.
 Mr. Allan Angus Magee, C.B.E., K.C.
 Mr. Harold Alfred Stevenson
 Mr. Walter Osborne Stevenson
 Hon. Louis Alexandre Taschereau, LL.D., K.C.
 Mr. John Howard Guy Faulkner Vale.

There being no more nominations, a vote by ballot was taken and the Chairman declared that the following Directors were unanimously elected for the ensuing year, or until their successors are appointed:—

Mr. Henry Borden, C.M.G., K.C.
 Mr. Julian Stanley Crossley
 Mr. Charles Strange Macdonald, M.A.

Mr. Allan Angus Magee, C.B.E., K.C.
 Mr. Harold Alfred Stevenson
 Mr. Walter Osborne Stevenson
 Hon. Louis Alexandre Taschereau, LL.D., K.C.
 Mr. John Howard Guy Faulkner Vale.

Extract from the Minutes of the Meeting of the Board of Directors of Barclays Bank (Canada) held at the Head Office of the Bank on Tuesday, the 16th November, 1943:—

"The Chairman stated that the Directors should proceed to elect a President and Vice-President and called for nominations in that connection. The following were then duly nominated:—

For President—Mr. A. A. Magee

For Vice-President—Mr. H. A. Stevenson

and it was moved by Mr. J. H. G. F. Vale, seconded by Mr. Henry Borden and unanimously resolved that the Secretary be and he is hereby instructed to cast one ballot for the election of Mr. A. A. Magee as President and Mr. H. A. Stevenson as Vice-President. The Secretary cast the ballot accordingly, and the Chairman declared Mr. A. A. Magee duly elected as President and Mr. H. A. Stevenson as Vice-President."

CERTIFIED TRUE EXTRACTS FROM THE MINUTES of the Meetings referred to above.

(Sgd.) W. B. CHENEY,
Secretary.

BARCLAYS BANK (CANADA)

Return showing the name and address of each Director elected at the Sixteenth Annual General Meeting of Shareholders held on the 16th November, 1943, with a list of the Banks, Firms, Companies and Corporations of which he is a Director or Partner.

Mr. Henry Borden, C.M.G., K.C., 320 Bay Street, Toronto.—

Barclays Trust Company of Canada, Director.

Borden, Elliot, Sankey & Kelley, Partner.

Hamilton United Theatres Ltd., Director.

Holt Renfrew & Co. Ltd., Director.

Real Estate Loan Company of Canada Ltd., Director.

Traders Finance Corporation Ltd., Director.

Mr. Julian Stanley Crossley, 54 Lombard Street, London, England.—

Barclays (Canada) Ltd., Director.

Barclays Trust Co. of Canada, Director.

Mr. Charles Strange Macdonald, M.A., 12 Richmond St. E., Toronto.—

Barclays (Canada) Limited, Director.

Confederation Life Association, President and Director.

Consumers Gas Co. of Toronto, Director.

Dominion Fire Insurance Company, President and Director.

Dominion-Scottish Investments Ltd., Chairman and Director.

Toronto General Trusts Corporation, Director.

Mr. Allan Angus Magee, C.B.E., K.C., 507 Place d'Armes, Montreal.—

Associated Screen News Limited, Vice-President and Director.

Barclays (Canada) Limited, President and Director.

Barclays Trust Co. of Canada, President and Director.

Dilkusha Investments Ltd., President and Director.

Dominion Rubber Company Limited, Director.

Gulf Trust Corporation, Director.

Hydro-Electric Securities Corp., Director.

International Holdings Limited, Director.

Magee & O'Donnell, Partner.

McColl-Frontenac Oil Co. Ltd., Chairman of Board and Director.

Montreal Telegraph Company, Director.

National Breweries Ltd., Director.

Northern Acceptance Co. Ltd., President and Director.

Wm. Notman & Son Ltd., Director.

Stadacona Finance Corporation Ltd., Director.

Weston Investments Ltd., President and Director.

- Mr. Harold Alfred Stevenson, 214 St. James St. West, Montreal.—
Barclays (Canada) Ltd., Director.
- Mr. Walter Osborne Stevenson, 54 Lombard Street, London, England.—
Banque de Commerce S.A., Director.
Barclays Bank (Dominion, Colonial & Overseas), Vice-Chairman and Director.
Barclays Bank (France) Limited, Director.
Barclays Bank Limited, Director.
Barclays Bank S.A. I., Director.
Barclays (Canada) Limited, Director.
- Hon. Louis Alexandre Taschereau, LL.D., K.C., 187 Grande Allee, Quebec City.—
Barclays (Canada) Limited, Director.
Caisse d'Economie Notre Dame de Quebec, Director.
Canadian Investment Fund Limited, Director.
Globe Indemnity Company, Director.
Liverpool, London & Globe Insurance Co., Director.
Liverpool, Manitoba Insurance Co., Director.
Royal Trust Company, Director.
Sun Life Assurance Company, Director.
- Mr. John Howard Guy Faulkner Vale, 214 St. James St. West, Montreal.—
Astoria Investment Company Ltd., Director.
Ayrmont Company Limited, President and Director.
Barclays (Canada) Limited, Director.
Barclays Trust Company of Canada, Director.
Canadian Crown Cork Company Limited, Vice-President and Director.
Montredon Investment Company Ltd., Director.

EXHIBIT No. 29

Break-down of Interest, Dividends and Trading Profits on Securities (Item 2)
in Statement of Current Operating Earnings and Expenses and Other
Information for the Ten Chartered Banks for the Financial Year 1943
(page 2620 of Unrevised *Hansard*, May 2, 1944)

(Millions of Dollars)

Revenue derived from interest on Dominion Government direct and guaranteed securities	\$32.0
Revenue derived from interest on Provincial Government direct and guaranteed securities	7.7
Revenue derived from interest on Canadian municipal securities.....	2.3
Revenue derived from interest and dividends on all other securities...	5.7
Revenue derived from trading profits on <i>all</i> securities.....	1.0
	<hr/>
	<u>\$48.7</u>

EXHIBIT No. 30

Break-down of All Other Current Operating Expenses (Item 10) in Statement of Current Operating Earnings and Expenses and Other Information for the Ten Chartered Banks for the Financial Year 1943
(page 2620 of Unrevised *Hansard*, May 2, 1944)

(Millions of Dollars)

Premises, including net rents, repairs, equipment, light, heat and other maintenance	\$ 7.3
Mechanical Equipment, stationery and supplies.....	2.9
Postage and express charges.....	1.7
Insurance, including Fire, Fidelity, Registered Mail, Hold-up, War Risk, etc.	0.9
Travelling and moving expenses.....	0.9
Advertising	0.9
Charitable Donations	0.7
Telegrams and telephones.....	0.6
Retirement allowances	0.6
Directors' fees—and expenses.....	0.6
Staff lunches and other meals.....	0.5
Unemployment Insurance	0.3
Auditors' fees and expenses.....	0.2
All other current operating expenses, exclusive of any provision for losses	2.3
	<u>\$20.4</u>

EXHIBIT No. 31

High and Low Prices of Canadian Chartered Bank Stocks in each of the Years, 1929, 1933, 1939 and 1943

	1929	1933	1939	1943
Montreal	425/290	221/150	222/177	160/147
Nova Scotia	405/370	285/230	313/290	254½/223
Toronto	282/240	215/152	257½/215	255/230
Provinciale (not listed)	153/138	105/90	115/106	107/100
Commerce	360/240	175/120	179/134	144/128
Royal	397/285	183/124	193/140	150/132
Dominion	280/225	175/124	210½/185	167/142½
Canadienne-Nationale	189/170	155/127½	167½/140	133/128
Imperial	277/227	185/123	221/185	185/155
Barclays (not listed—all but directors' shares held by parent institutions.)				

NOTE.—Quotations of listed stocks are taken from Phelan's Corporation Statistics, Montreal.

Figures for La Banque Provinciale du Canada are not available from Stock Exchange authorities, but were furnished from reliable sources.



SUPPLEMENT TO THE CANADA GAZETTE, JANUARY 6th, 1934

RETURN OF THE CHARTERED BANKS OF THE DOMINION OF CANADA

NOVEMBER 30th, 1933

Made to the Minister of Finance in conformity with Section 112 of the Bank Act, Chapter 12 of the Revised Statutes of Canada, 1927

NAME OF BANK — NOM DE LA BANQUE	LIABILITIES—PASSIF																					
	Notes in circulation	Balance due to Deposits on Government, other chartered banks, and other banks, etc.	Advances under the Finance Act	Balance due to Deposits on Government	Deposits by the public, payable on demand in Canada	Deposits by the public, payable after notice in Canada	Deposits by the public, payable on demand in Canada	Deposits by the public, payable after notice in Canada	Loans from other banks in Canada, except including bills rediscounted	Deposits made by and balance due to other banks in Canada	Due to banks and banking corporations elsewhere than in Canada, and the United Kingdom	Due to banks and banking corporations elsewhere than in Canada, and the United Kingdom	Letters of Credit outstanding	Letters of Credit outstanding	Letters of Credit outstanding	Letters of Credit outstanding	Letters of Credit outstanding	Letters of Credit outstanding	Letters of Credit outstanding	Letters of Credit outstanding	Letters of Credit outstanding	Letters of Credit outstanding
	Notes en circulation	Balance due au Gouvernement fédéral, aux banques chartrées et aux autres banques, etc.	Avances octroyées en vertu de la Loi Assemblée	Balance due aux particuliers et aux autres banques	Dépôts de la population payable à la demande, en Canada	Depôts de la population payable après avis, en Canada	Depôts de la population payable à la demande, en Canada	Depôts de la population payable après avis, en Canada	Prêts octroyés à d'autres banques en Canada, y compris les prêts octroyés de commerce	Depôts faits par d'autres banques en Canada et balance due à ces banques	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni	Balance due à des banques et aux autres banques de l'étranger, y compris le Royaume-Uni
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Bank of Montreal	20,122,112	10,918,750	2,800,000	2,714,067	127,827,300	279,353,491	60,445,923	1,622,025	1,688,258	3,262,303	180,125	6,271,000	1,947,700	718,216	22,900,000	28,900,000	724,575,000	20,000,000	30,000,000	1,202,000	16,000,000	
Bank of Nova Scotia	21,227,829	987,451	2,214,000	668,731	32,947,764	131,140,643	26,794,327	1,356,828	280,763	1,696,278	496,827	5,712,744	168,794	8,274	24,000,000	12,700,000	262,590,900	15,000,000	12,000,000	2,200,100	9,100,500	
Bank of Toronto	8,759,214	2,313,863	1,800,000	1,694,706	23,061,275	63,577,090	68,427	283,947	748,947	362,500	362,500	1,272,760	220,467	156,832	9,000,000	6,000,000	115,268,455	10,000,000	6,000,000	152,000	375,000	
Imperial Bank of Canada	2,463,606	769,768	600,000	45,476	4,061,662	20,000,000	—	—	—	—	—	—	—	—	1,000,000	4,000,000	45,000,000	5,000,000	4,000,000	66,544	227,000	
Canadian Bank of Commerce	28,446,465	7,813,264	15,000,000	5,171,677	186,058,511	225,021,370	34,063,292	1,473,600	8,940,829	14,556,311	21,500	12,132,153	6,710,604	20,000,000	20,000,000	172,332,335	20,000,000	20,000,000	4,196,900	11,500,000	20,000,000	
Bank of Canada	25,360,368	8,649,947	28,000,000	9,600,000	130,000,000	253,711,727	180,275,488	841,458	208,122	20,000,000	255,000	22,802,546	67,800	112,745	20,000,000	25,000,000	222,575,572	20,000,000	15,000,000	2,051,000	5,500,000	
Bank of Montreal	8,922,200	671,930	2,656,000	246,066	20,246,014	6,761,665	2,028,642	463,156	57,000	576,781	—	1,532,454	227,771	754	9,000,000	7,000,000	114,232,255	10,000,000	2,000,000	1,122,768	600,000	
Bank of Montreal	8,163,814	2,051,825	4,000,000	2,055,291	17,568,679	37,319,450	1,171,112	468,474	22,200	329,400	—	442,478	127,601	127,601	5,000,000	7,000,000	126,579,825	10,000,000	7,000,000	114,232	691,111	
Bank of Montreal	7,506,003	965,604	1,600,000	1,443,000	23,509,893	51,769,728	—	1,954,704	107,820	176,431	—	394,650	—	—	5,000,000	7,000,000	121,551,258	10,000,000	7,000,000	—	—	
Bank of Montreal	244,200	215,218	24,000	180,800	1,124,905	2,846,684	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total	125,105,296	44,212,500	100,441,000	23,060,144	609,285,841	1,286,389,789	319,343,164	8,807,801	12,912,267	44,791,631	1,282,239	44,335,611	2,271,700	2,494,755	134,500,000	184,500,000	2,315,455,752	200,000,000	184,500,000	10,115,073	45,000,000	

RETURN OF THE CHARTERED BANKS OF THE DOMINION OF CANADA, NOVEMBER 30th, 1933

[illegible]

W. C. CLARK,
Deputy Minister of Finance.



SUPPLEMENT TO THE CANADA GAZETTE, JANUARY 1st, 1944

RETURN OF THE CHARTERED BANKS OF THE DOMINION OF CANADA

NOVEMBER 30th, 1943

Made to the Minister of Finance in conformity with Section 112 of the Bank Act, Chapter 24 of the Revised Statutes of Canada, 1934

NAME OF BANK — NOM DE LA BANQUE	LIABILITIES—PASSIV											SUPPLEMENTARY INFORMATION—RENSEIGNEMENTS SUPPLÉMENTAIRES									
	Deposits by and for the Government	Deposits by and for the provinces and municipalities	Deposits by the public, payable on demand, in Canada	Deposits by the public, payable on demand, outside Canada	Deposits by the public, payable on demand, in Canada	Deposits by the public, payable on demand, outside Canada	Deposits by and for the Government	Deposits by and for the provinces and municipalities	Deposits by the public, payable on demand, in Canada	Deposits by the public, payable on demand, outside Canada	Deposits by and for the Government	Capital authorized	Capital subscribed	Rate per annum of last dividend (and bonus, if any)	Aggregate amount of loans in dollars and cents, payable on demand, in Canada	Average daily amount held in reserve with Bank of Canada during the month	Greatest amount of loans in dollars and cents, payable on demand, in Canada	Contingent liabilities, in dollars and cents			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17				
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
1 Bank of Montreal	5,941,539	236,161,159	26,461,737	412,341,478	45,539,834	15,429,518	1,732,948	12,480,265	19,399,762	17,091,127	9,401,911	549,479	39,000,000	39,000,000	1,436,730,833	30,000,000	35,000,000	6	348,268	111,203,722	8,358,818
2 Bank of Nova Scotia	4,061,494	69,909,000	1,967,879	167,530,291	15,819,326	11,878,797	4,396,324	2,521,194	1,525,311	27,832,996	274,308	343,476	21,000,000	17,000,000	197,400,511	15,000,000	17,000,000	10	1,990,806	75,267,000	4,143,575
3 Bank of Toronto	3,279,303	16,397,217	2,994,415	79,695,965	140,656,612	367,864	1,843,421	1,463,718	298,344	8,423,751	109,711	42,000,000	6,000,000	275,000,170	15,000,000	7,000,000	10	269,264	15,051,114	1,565,934	
4 La Banque Provinciale du Canada	1,106,663	6,194,001	116,629	20,272,356	56,396,639	21,222			42,263	69,922	22,264	38,531	1,000,000	1,000,000	82,127,415	5,000,000	4,000,000	3	161,929	5,746,753	8,298,423
5 The Canadian Bank of Commerce	4,269,868	192,819,952	15,910,745	311,770,641	50,415,191	51,665,677	6,666,011	7,094,293	7,461,155	45,109,419	1,414,414	25,000,000	25,000,000	1,367,500,515	30,000,000	30,000,000	6	715,742	89,030,091	9,628,191	
6 The Royal Bank of Canada	12,581,468	211,095,181	16,927,734	454,000,196	275,911,132	2,192,828	2,471	1,469,216	35,062,561	25,118,436	573,791	50,000,000	25,000,000	1,960,242,043	30,000,000	25,000,000	6	191,530	115,143,296	17,872,891	
7 Dominion Bank	1,369,254	11,439,042	2,461,742	21,115,551	56,566,091	2,191,396	1,148,492	196,731	999,621	5,061,439	113,191	3,000,000	2,000,000	272,657,345	1,000,000	7,000,000	6	448,516	26,956,431	2,892,763	
8 Banque Canadienne Nationale	2,115,437	26,667,527	1,565,876	86,766,388	15,367,292	8,632,919	1,261,591	27,663	6,606,515	55,174	39,000	209,345	5,000,000	400,000	251,913,212	10,000,000	5,000,000	6	124,993	26,479,696	2,263,967
9 Federal Bank of Canada	1,543,735	80,141,157	21,091,299	54,902,721	39,129,619	36,666,611	2,199,732	1,664,855	1,457,829	5,227,825	2,318	5,000,000	2,000,000	285,125,795	30,000,000	2,000,000	3	322,151	26,319,568	1,548,795	
10 Bank of Canada	469,539	2,046,202	5,353	8,724,711	6,930,459	8,102,202	196,625	2,191,994	952,487	227,619	26,305			750,000	1,500,000	51,221,462	1,500,000	2,000,000		492,429	
Total	41,491,001	565,693,591	58,628,721	1,629,191,333	1,837,335,851	622,965,690	14,239,768	21,862,498	51,451,793	115,919,298	4,901,795	1,791,796	135,790,000	145,500,000	5,625,456,654	211,500,000	145,500,000	6,499,611	491,492,142	45,954,008	

□

EXHIBIT No. 34

DEPOSITS BY THE PUBLIC AND BY DOMINION AND PROVINCIAL GOVERNMENTS IN THE CHARTERED BANKS AS OF DECEMBER 31 IN THE YEARS 1928-43 INCLUSIVE

(In Millions of Dollars)

	Deposits by the public, payable on demand, in Canada	Deposits by the public, payable after notice or on a fixed day in Canada	Deposits elsewhere than in Canada*	Deposits by and balances due to Dominion and Provincial Governments
1928.....	715	1,520	383	63
1929.....	729	1,434	442	92
1930.....	642	1,426	372	48
1931.....	567	1,360	310	131
1932.....	466	1,378	329	72
1933.....	502	1,357	322	61
1934.....	575	1,407	325	53
1935.....	641	1,486	379	53
1936.....	682	1,548	418	72
1937.....	699	1,583	409	53
1938.....	734	1,660	420	106
1939.....	853	1,741	474	180
1940.....	1,031	1,641	405	133
1941.....	1,268	1,669	462	167
1942.....	1,499	1,673	545	485
1943.....	1,697	1,948	655	750

* Includes, from August 1, 1935 to date, deposits in Canada in currencies other than Canadian, the total of which on December 31 in each of the years 1935 to 1943 inclusive was:—

1935.....	\$30 million
1936.....	65 "
1937.....	60 "
1938.....	66 "
1939.....	76 "
1940.....	48 "
1941.....	56 "
1942.....	55 "
1943.....	55 "

EXHIBIT No. 35

Names of Directors of Bank of Canada	Names of firms of which they are partners or directors
E. G. Baker.....	President, Moore Corporation Ltd. and various subsidiaries and associated companies. Vice-President, Canada Life Assurance Co. Director, Canadian and Foreign Securities Co. Director, Canada Northern Prairie Lands Ltd.
W. D. Black.....	President, Otis-Fensom Elevator Co. Ltd. Vice-President, Allied War Supplies Ltd.
W. C. Clark.....	Director, Central Mortgage Bank.
G. G. Coote.....	Director, Alberta Wheat Pool.
D. Gordon.....	Director, Central Mortgage Bank.
J. L. Holman.....	Vice-President, R. T. Holman Ltd. Director, Central Trust Company of Canada. Director, Hall Manufacturing and Cold Storage Co. Ltd.
F. Magee.....	President, Fred Magee Ltd. President, Central Trust Company of Canada.
W. K. McKean.....	President, Geo. McKean & Co. Ltd. Vice-President and Director, Moir's Ltd.
A. S. McNichols.....	President, A. S. McNichols & Co. Ltd. Director, National Trust Company Ltd. Director, Reliance Insurance Company Ltd. of Canada. Director, Mount Royal Hotel Co. Ltd. Director, Zinc Oxide Co. Ltd.
R. H. Milliken, K.C.....	Partner, MacPherson, Milliken, Leslie & Tyerman. Director, Co-operative Mutual Benefit Association.
A. C. Picard.....	Vice-President and Managing Director, Rock City Tobacco Co. Ltd. Director, Rock City Cigar Co. Ltd. Director, Leamington Tobacco Sales Corporation. Director, Quebec Power Company. Director, Price Bros. & Co. Ltd. Director, Canada Steamship Lines Limited.
E. J. Tarr, K.C.....	President, Monarch Life Assurance Company. Director, Northern Trust Company. Director, A. R. MacNichol Ltd. Director, United Corporations Ltd. Director, G. F. & J. Galt Ltd.
A. C. Taylor.....	President, Bralco Ltd. President, Bralorne Mines Ltd. President, Burrard Placers Ltd. President, Harvey Creek Mines Ltd. President, Buccaneer Mines Ltd. President, Boundary Bay Flying Training School Ltd. President, Vancouver Air Training Co. Ltd. Vice-President, Wartime Shipbuilding Ltd. Director, Home Oil Distributors Ltd. Director, British Columbia Packers Ltd. Director, Boeing Aircraft of Canada Ltd. Director, Summit King Mines Ltd.
G. F. Towers.....	Director, Central Mortgage Bank.

EXHIBIT No. 36

ADVANCES MADE BY BANK OF CANADA TO

CHARTERED BANKS

Date	Advances	Repayments	Balance	Interest
	\$	\$	\$	\$
<i>Bank "A"</i>				
May 3/35.....	1,000,000		1,000,000	
May 8/35.....	750,000		1,750,000	
May 9/35.....		750,000	1,000,000	
May 11/35.....	500,000		1,500,000	
May 13/35.....	250,000		1,750,000	
May 17/35.....		1,000,000	750,000	
May 25/35.....		500,000	250,000	
May 27/35.....		250,000	Nil	1,729 44
July 3/35.....	1,000,000		1,000,000	
July 17/35.....		1,000,000	Nil	958 90
				2,688 34
<i>Bank "B"</i>				
June 12/36.....	300,000		300,000	
June 25/36.....		300,000	Nil	267 12
Oct. 1/38.....	1,500,000		1,500,000	
Oct. 3/38.....	2,500,000		4,000,000	
Oct. 12/38.....	1,000,000		5,000,000	
Nov. 15/38.....		2,400,000	2,600,000	
Nov. 16/38.....		2,600,000	Nil	14,493 15
				14,760 27
<i>Bank "C"</i>				
May 1/43.....	625,000		625,000	
May 19/43.....		625,000	Nil	770 55

Recapitulation

Interest Total—Chartered Banks.....	18,219 16
Interest Total—Que. Sav. Banks.....	57,609 86
Total.....	75,829 02

Rate of interest collected $2\frac{1}{2}\%$.Rate of interest to be collected in advances made since February 8th, 1944 will be $1\frac{1}{2}\%$.

EXHIBIT No. 36—*Concluded*
ADVANCES MADE BY BANK OF CANADA TO
BANKS INCORPORATED UNDER THE QUEBEC SAVINGS BANK ACT

Date	Advances	Repayments	Balance	Interest
	\$	\$	\$	\$
<i>Bank "A"</i>				
Nov. 3/36	750,000		750,000	
Nov. 18/36		750,000	Nil	770 55
Sept. 21/39	1,000,000		1,000,000	
Nov. 7/39		1,000,000	Nil	3,219 20
Feb. 28/40	300,000		300,000	
Mar. 6/40		300,000	Nil	143 85
May 25/40	500,000		500,000	
May 28/40	500,000		1,000,000	
June 19/40	500,000		1,500,000	
June 20/40	500,000		2,000,000	
June 25/40	500,000		2,500,000	
July 27/40		500,000	2,000,000	2,157 60
July 27/40		500,000	1,500,000	2,054 80
Aug. 2/40		500,000	1,000,000	1,506 85
Aug. 7/40		500,000	500,000	1,643 80
Aug. 19/40		500,000	Nil	1,883 56
Oct. 1/40	1,000,000		1,000,000	
Oct. 2/40	1,000,000		2,000,000	
Oct. 17/40		500,000	1,500,000	547 95
Oct. 21/40		500,000	1,000,000	684 95
Nov. 5/40		1,000,000	Nil	2,328 80
June 12/41	500,000		500,000	
June 14/41	500,000		1,000,000	
June 18/41	500,000		1,500,000	
June 20/41	500,000		2,000,000	
June 25/41	1,000,000		3,000,000	
July 17/41		500,000	2,500,000	1,198 65
Aug. 7/41		500,000	2,000,000	1,849 31
Sept. 6/41		500,000	1,500,000	2,739 70
Sept. 9/41		500,000	1,000,000	2,774 00
Oct. 10/41	500,000		1,500,000	
Nov. 4/41		1,000,000	500,000	9,041 10
Nov. 8/41		500,000	Nil	993 15
Mar. 10/42	1,000,000		1,000,000	
Apr. 11/42		500,000	500,000	1,095 90
Apr. 30/42		500,000	Nil	1,746 60
Oct. 27/42	500,000		500,000	
Oct. 30/42	500,000		1,000,000	
Nov. 7/42	500,000		1,500,000	
Nov. 9/42	750,000		2,250,000	
Nov. 10/42	500,000		2,750,000	
Nov. 12/42	500,000		3,250,000	
Nov. 27/42		500,000	2,750,000	1,061 65
Nov. 30/42		500,000	2,250,000	1,061 65
Dec. 17/42		500,000	1,750,000	1,369 90
Dec. 31/42		500,000	1,250,000	1,746 60
Jan. 7/43		500,000	750,000	1,917 81
Jan. 15/43		750,000	Nil	3,441 80
Nov. 9/43	500,000		500,000	
Dec. 1/43		500,000	Nil	753 42
May 17/44	500,000		500,000	
May 19/44	500,000		1,000,000	
May 23/44	500,000		1,500,000	
May 25/44	500,000		2,000,000	
				49,733 15
<i>Bank "B"</i>				
June 14/40	500,000		500,000	
June 27/40	500,000		1,000,000	
Oct. 5/40		500,000	500,000	3,869 86
Oct. 8/40		500,000	Nil	3,527 40
June 30/41	250,000		250,000	
July 29/41		250,000	Nil	479 45
May 15/44	600,000		600,000	Not due
				7,876 71
				57,609 86

EXHIBIT No. 37
SIDELIGHTS ON THE GREAT DEPRESSION

LIST OF THE DIAGRAMS

- I. Merchandise Exports from Canada.
- II. Index of Prices of Canadian Common Stocks.
- III. Combined Demand and Notice Deposits.
- IV. Rate of Turnover of Bank Deposits.
- V. Index of Employment in Manufacturing Industries.
- VI. Index of Employment in All Industries.
- VII. Combined Security Holdings of Banks and Other Current Loans and Discounts in Canada.
- VIII. Aggregate Security Holdings of the Chartered Banks.
- IX. Other Current Loans and Discounts in Canada.
- X. Index of Wholesale Prices of Manufactured Goods.
- XI. Index of All Wholesale Prices in Canada.
- XII. Index of Wholesale Prices of Canadian Farm Products

When it began to seem likely that I should make an appearance before the Banking and Commerce Committee this Session, I reviewed the course of events in Canada from 1928 to 1931 in order to see how the Great Depression began. Somewhat to my surprise, even the naked statistics told a perfectly coherent story. I have thought it might be helpful to reproduce these in the form of pictures.

Robert J. Jackson

15TH MAY, 1944.

Almost all business activities can be pictured in diagrams. But the reading of them is apt occasionally to be difficult, because of the sharp ups-and-downs occurring from month to month.

Some of these are due to recurring seasonal influences, regular or irregular, which have no significance for the future; some are due to special and temporary circumstances equally devoid of significance.

We therefore badly need a means of tracing *the trends that underlie these abrupt monthly movements*. The simplest method of ascertaining such trends is to make what is called a "twelve months' moving average" of the facts (that is, add the successive figures in groups of twelve consecutive months, and divide each time by twelve), and centre the result at the mid-point of the twelve months. In this way we can often obtain a smoothly flowing curve, from which seasonal and other influences of no significance for the future are eliminated.

In the diagrams on the pages that follow, the heavy black line is in each case a "twelve months' moving average"—as here described—and the lighter line illustrates the changes from month to month, as recorded at the time.

DIAGRAM I

We sometimes tend to forget that the Great Depression was not a purely Canadian affair. Its scope was world-wide; indeed, some other countries suffered, as a result of it, very much more severely than our own. The causes of the Great Depression were also presumably world-wide.

In any case, the Great Depression did not begin in Canada; but came to this Dominion from abroad. Therefore, it is not surprising that the first sign of its approach is to be found in the slumping of Canadian exports—the trend line indicates this as beginning in February, 1929.

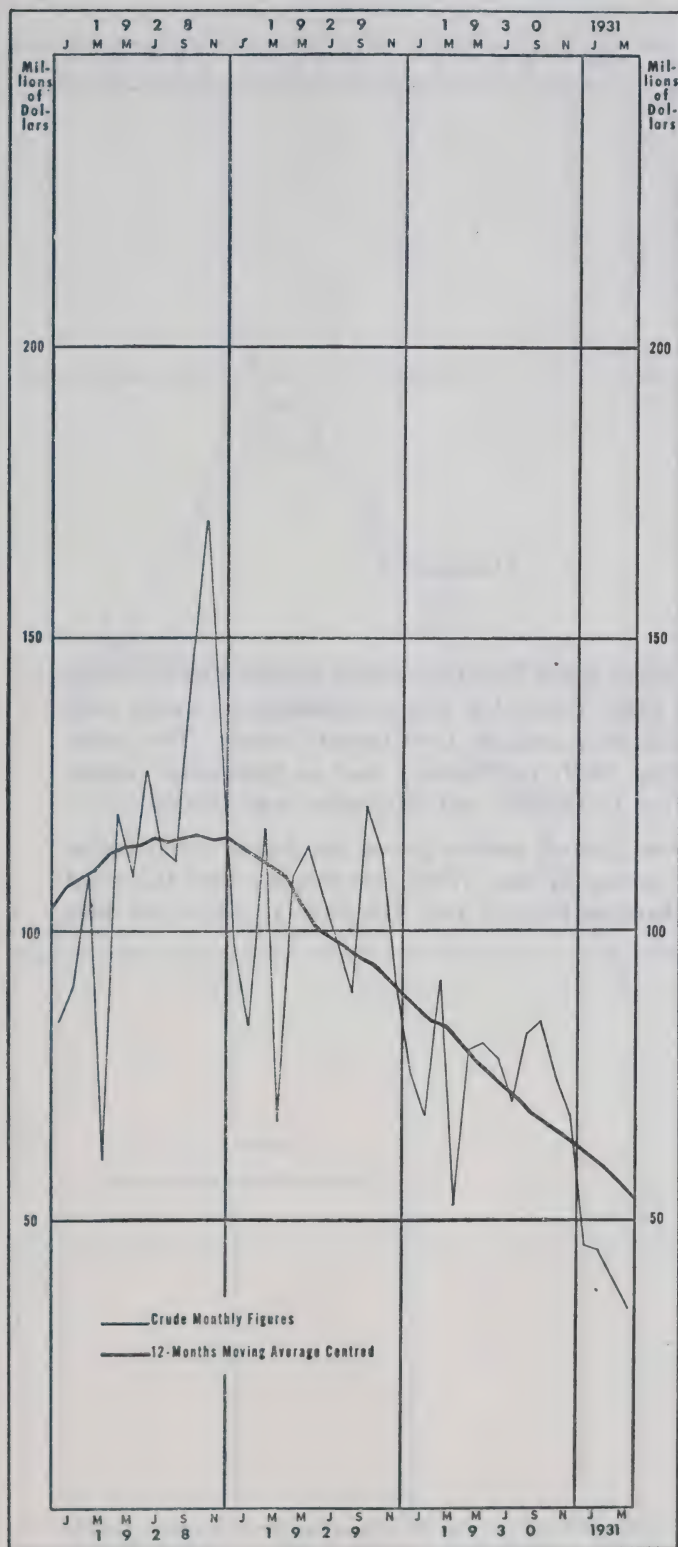


DIAGRAM I

**Merchandise
Exports
from
Canada**

DIAGRAM II

Stock market prices had been rising almost without interruption since 1925. But in the face of diminishing exports, they could not indefinitely continue their upward course. Two peaks appeared during 1929; in February and in September respectively; the drop in October and November was cataclysmic.

In the case of stock market prices, our line of trend begins its downward course in June 1929; four months after the trend line of merchandise exports (see Diagram I) began its long descent.

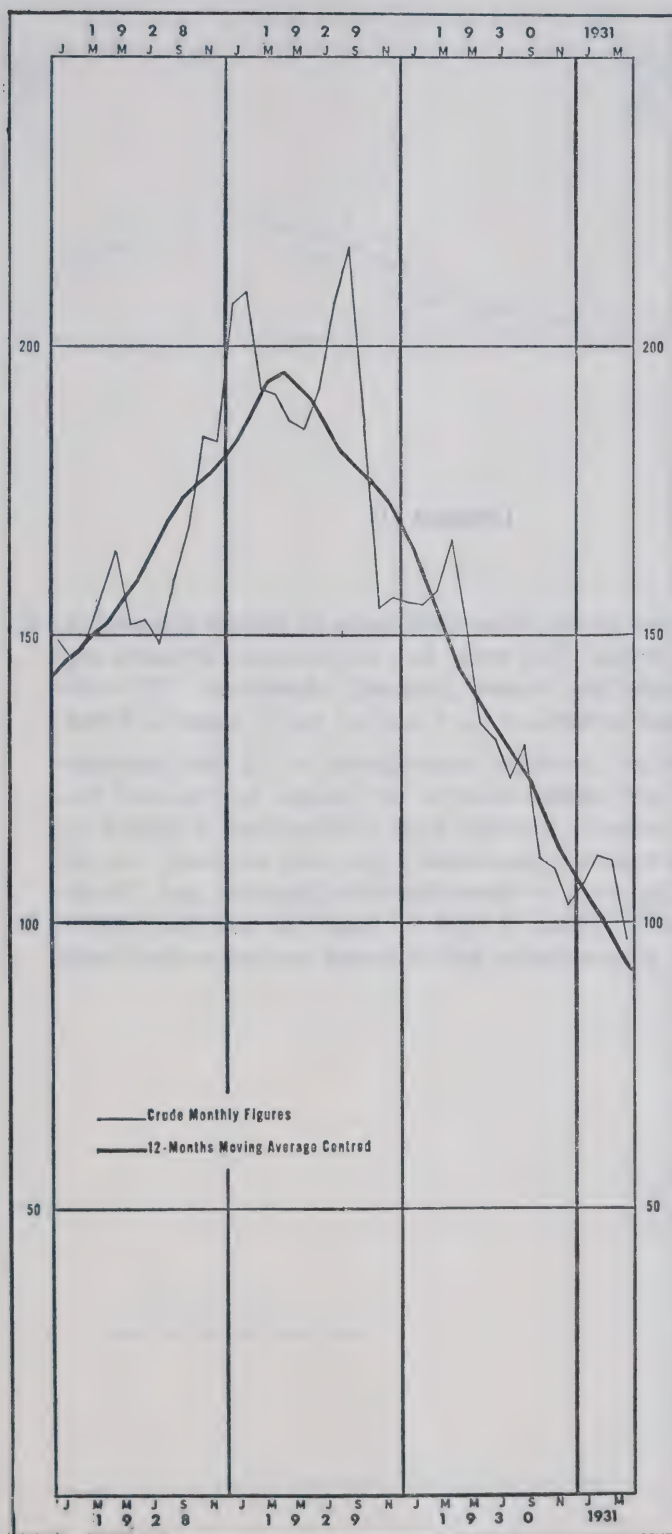


DIAGRAM II

**Index of
Prices
of Canadian
Common
Stocks
(1926=100)**



DIAGRAM III

In the same month, June 1929, signs of change appeared in the banking world. The trend line of Combined Demand and Notice Deposits also turned gradually downward. In other words, the bank accounts of the Canadian public began to shrink.

This was an inevitable consequence of (a) the shrinkage of Canada's merchandise exports—our income from abroad was accordingly reduced, and the four months from February to June 1929 represent approximately the time necessary for the collection of payment on these diminished exports; and (b) the first stock market slump of 1929 (in March of that year) which caused losses to speculators, and of course reacted on their bank balances.



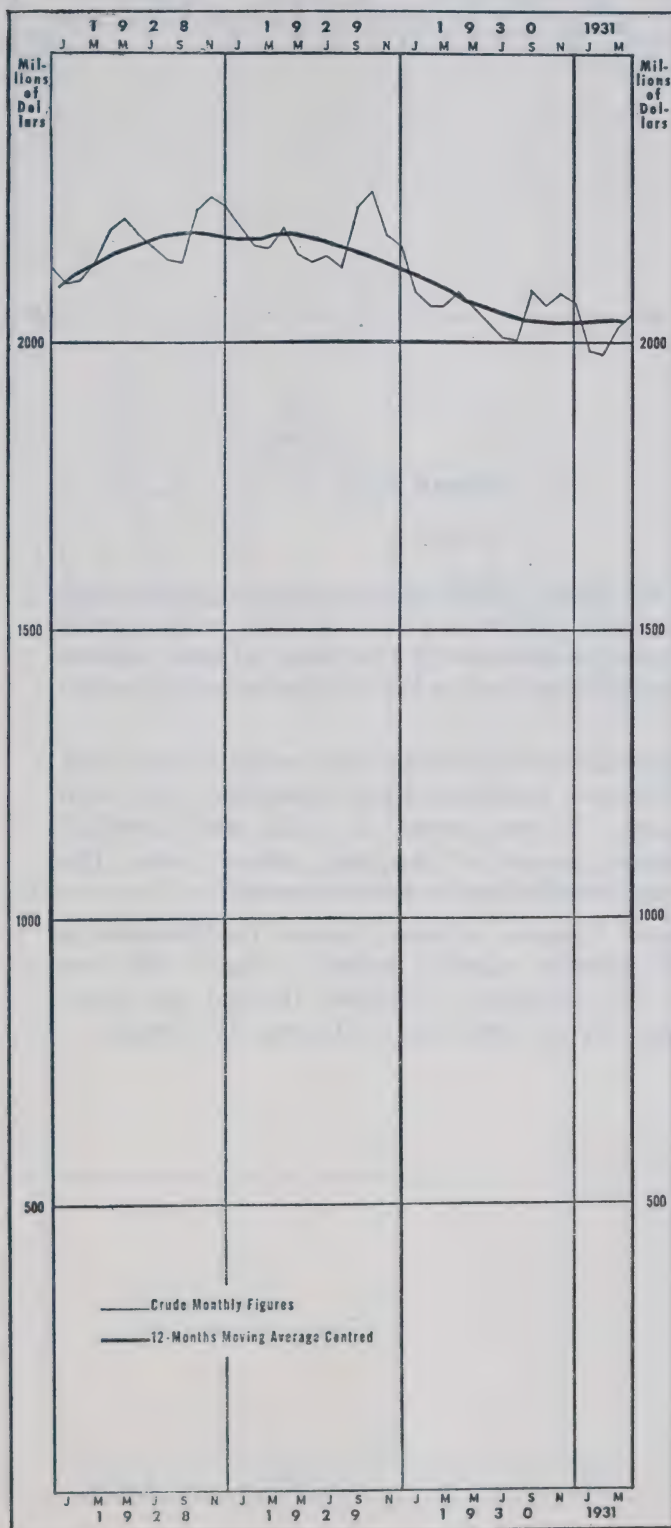


DIAGRAM III

Combined
Demand
and
Notice
Deposits

DIAGRAM IV

Fear of the future, so far as their personal interests are concerned, is aroused in many people, as they become aware of a slump in merchandise exports, a shrinkage of bank balances and a stock market crash such as that of October and November 1929.

Their apprehensions for themselves naturally led bank depositors to be more cautious in their expenditures, both business and private. To some extent, the public was "hoarding" its bank deposits, instead of chequing against them. This "hoarding" was intensified as the months passed.

The Rate of Turnover of Bank Deposits (as illustrated in our trend line opposite) began to decline in August 1929—two months after the shrinkage in Combined Demand and Notice Deposits (shown by the trend line in Diagram IV) began.

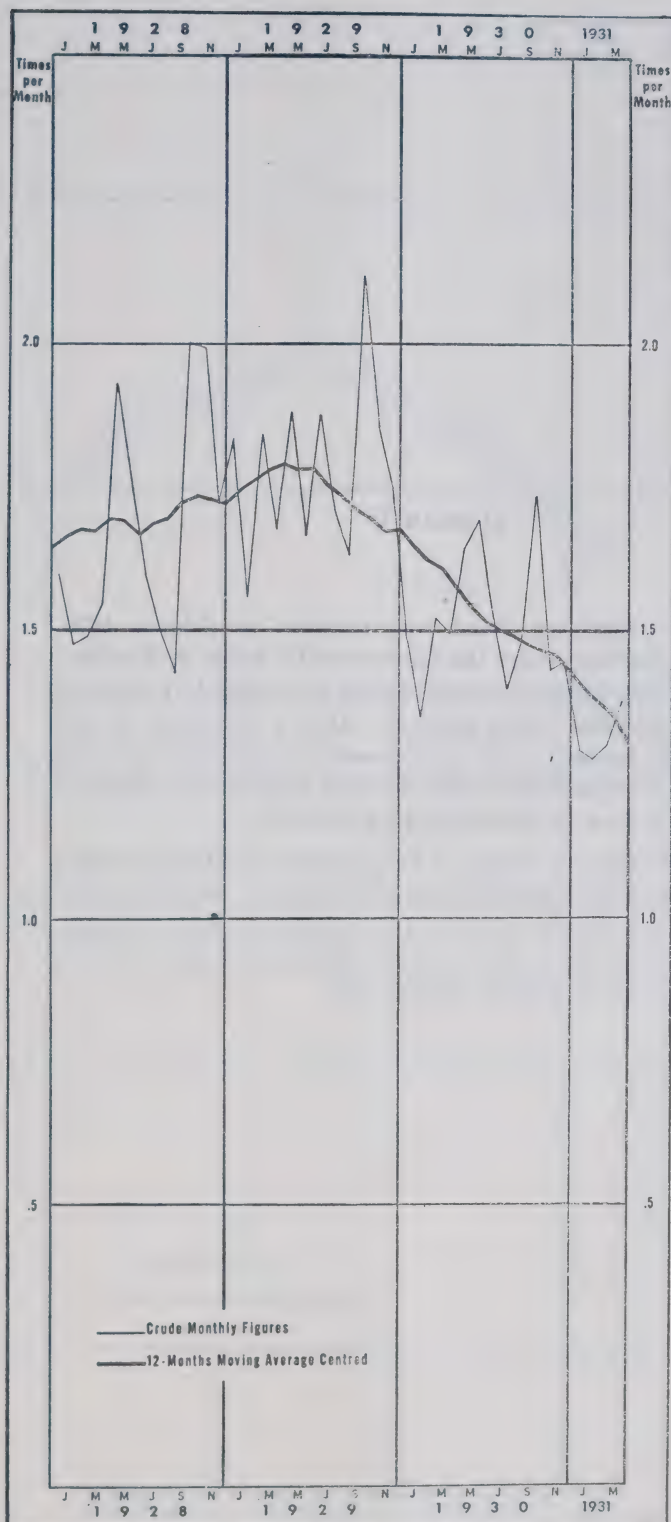


DIAGRAM IV

Rate of
Turnover
of
Bank
Deposits

DIAGRAM V

Another underlying trend was reversed in August 1929. During four previous years the Government's Index of Employment in Manufacturing Industries, except as modified by seasonal influences, had been rising steadily. But a shrinkage in the total of bank deposits, and an increasing reluctance to spend on the part of depositors, could not but react on the demand for goods, and thus on manufacturing activity.

The Government's Index of Employment in Manufacturing Industries has a pronounced seasonal character. But its underlying trend (as shown in a twelve months' moving average, centred) reached the zenith in July 1929, and began its long downward course in August of that year.

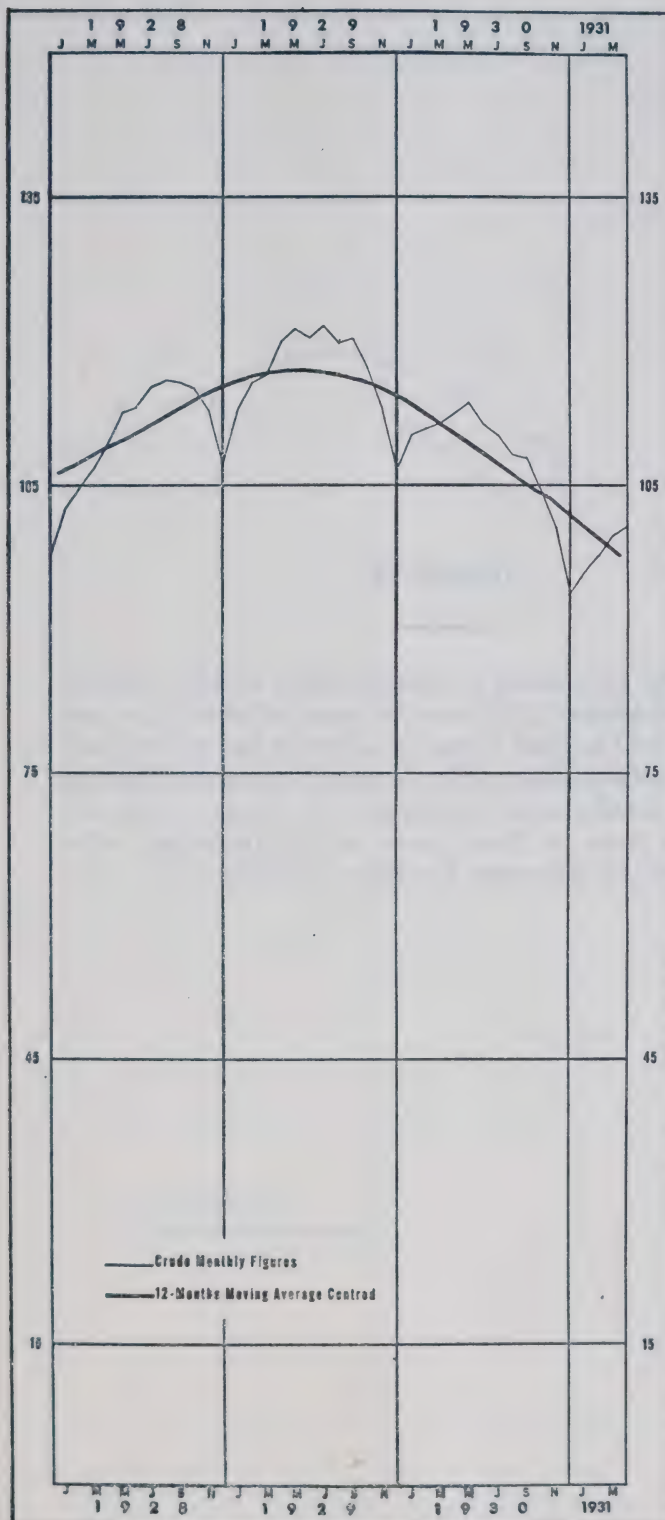


DIAGRAM V

**Index of
Employment
in
Manufactur-
ing
Industries
(1926 = 100)**



DIAGRAM VI

Due to the curtailment of manufacturing activity, workers began to be discharged by the manufacturing industries, at a time when employment in other Canadian industries was still expanding. But the consequences of the foregoing events could not be confined to manufacturing industries. In October 1929, the Government's Index of Employment in All Industries, independent of seasonal influences, also began to decline.



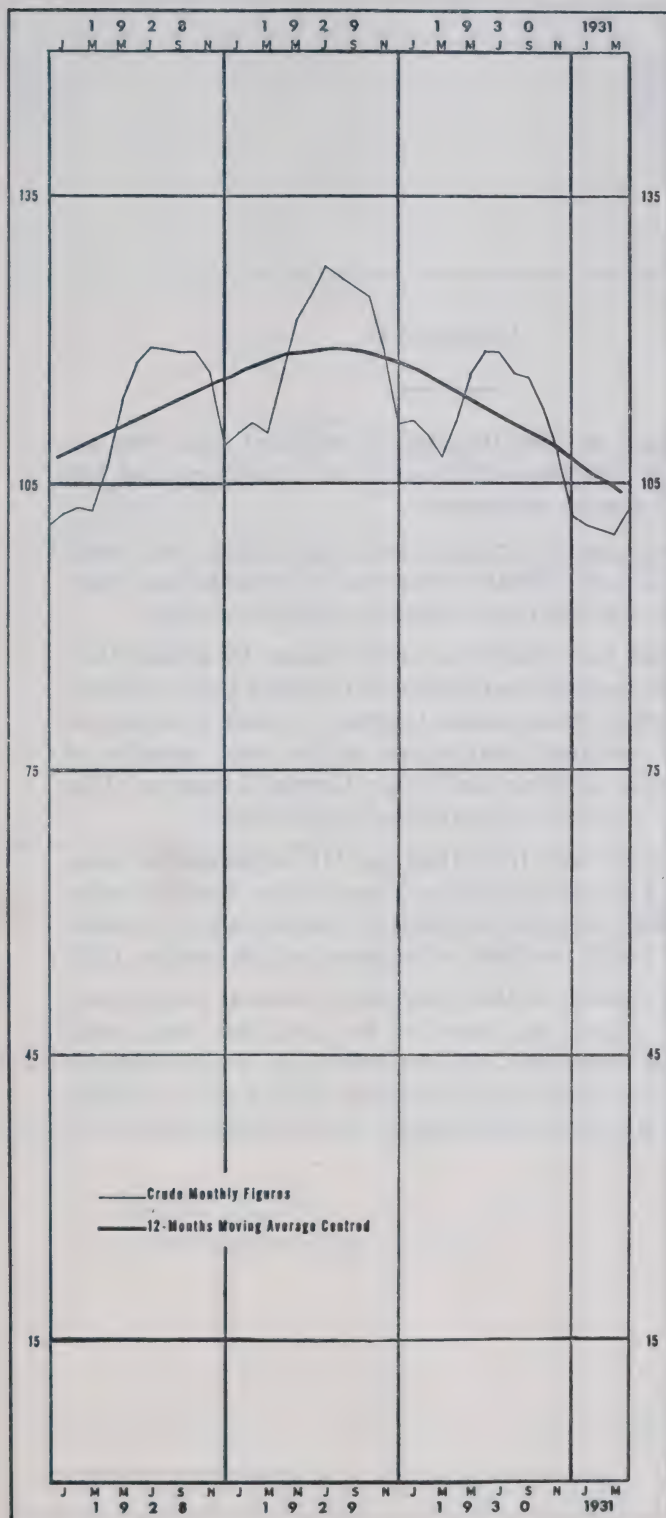


DIAGRAM VI

**Index of
Employment
in All
Industries
(1926 = 100)**

DIAGRAM VII

By this time in 1929 (though the public at large was not yet aware of it) the Great Depression had already reached this Dominion, and become widespread.

Its consequences would have been felt earlier, and would have been even more difficult to sustain, if the banks had taken alarm, and had restricted the volume of credit accordingly.

They might have restricted credit, either by selling their securities; or by calling upon borrowers to reduce their indebtedness; or by both of these means together; in such a manner as to reduce the combined total, shown on the page opposite, of Security Holdings of Banks and Other Current Loans and Discounts. These constitute the structure of bank credit.

But as can be seen from Diagram III (although the combined total of Demand and Notice Deposits was already declining in June 1929), from here onwards the banks made an increasing amount of credit available to business until September 1929.

Not until October of that year, when business was already becoming less active, and therefore the need for bank credit was already becoming less, did the volume of bank credit (as illustrated in the trend line of Diagram VII) begin to shrink. The shrinkage was short-lived, lasting only till September 1930.

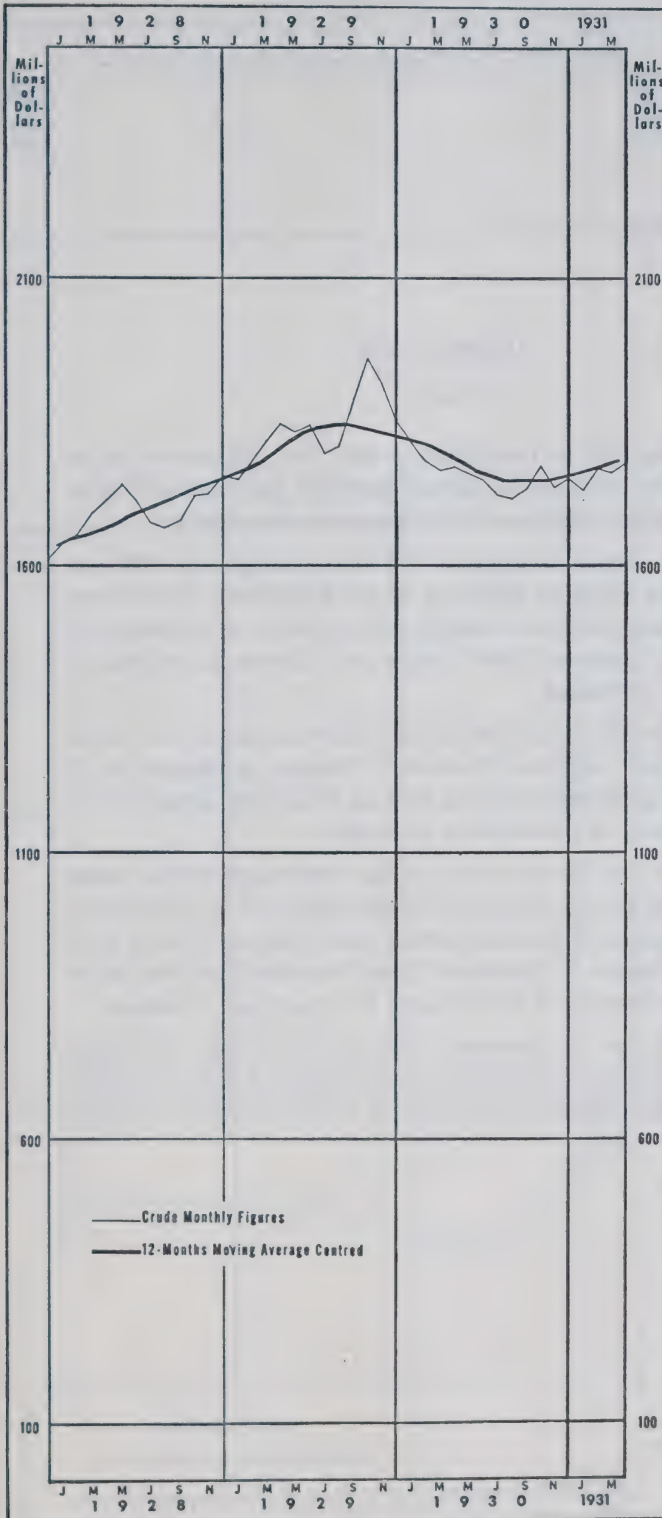


DIAGRAM VII

Combined
Security
Holdings of
Banks and
Other
Current
Loans and
Discounts
in Canada

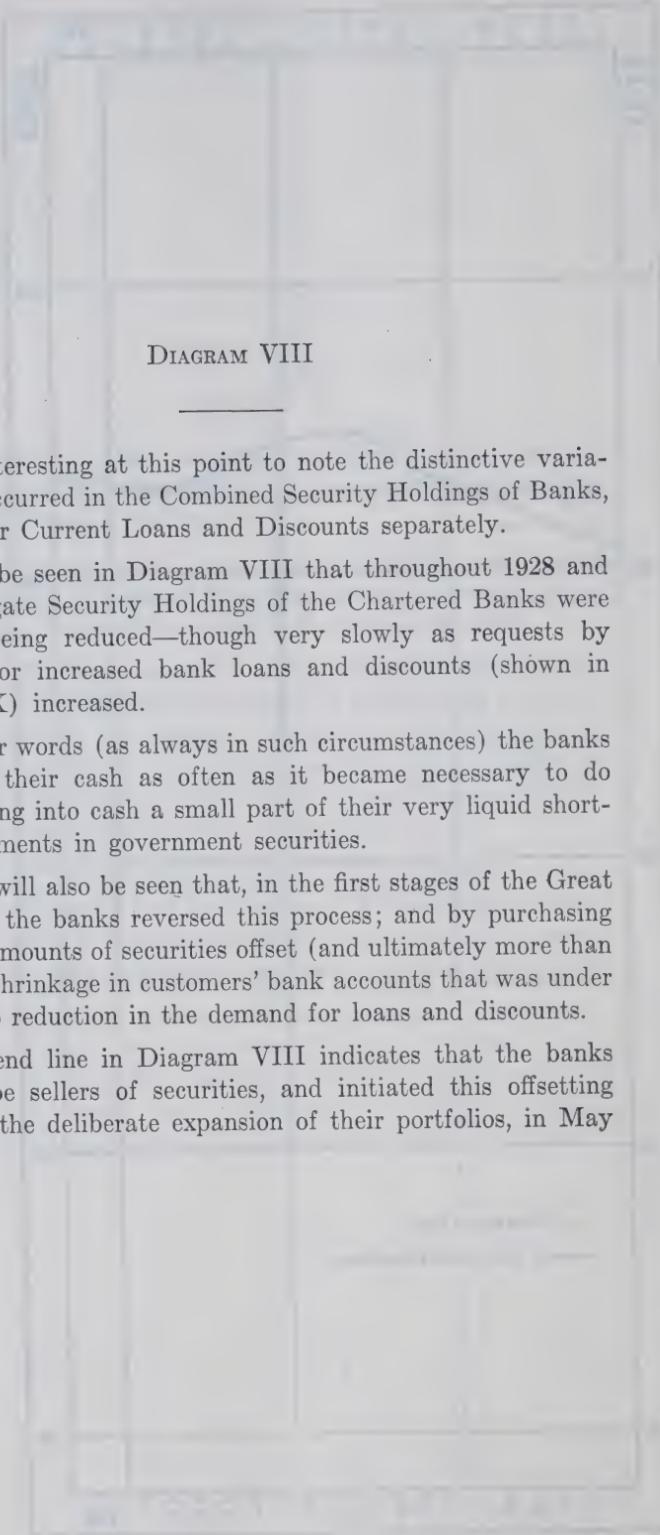


DIAGRAM VIII

It is interesting at this point to note the distinctive variations that occurred in the Combined Security Holdings of Banks, and in Other Current Loans and Discounts separately.

It will be seen in Diagram VIII that throughout 1928 and 1929 Aggregate Security Holdings of the Chartered Banks were gradually being reduced—though very slowly as requests by borrowers for increased bank loans and discounts (shown in Diagram IX) increased.

In other words (as always in such circumstances) the banks replenished their cash as often as it became necessary to do so, by turning into cash a small part of their very liquid short-term investments in government securities.

But it will also be seen that, in the first stages of the Great Depression, the banks reversed this process; and by purchasing increasing amounts of securities offset (and ultimately more than offset) the shrinkage in customers' bank accounts that was under way, due to reduction in the demand for loans and discounts.

Our trend line in Diagram VIII indicates that the banks ceased to be sellers of securities, and initiated this offsetting process by the deliberate expansion of their portfolios, in May 1930.

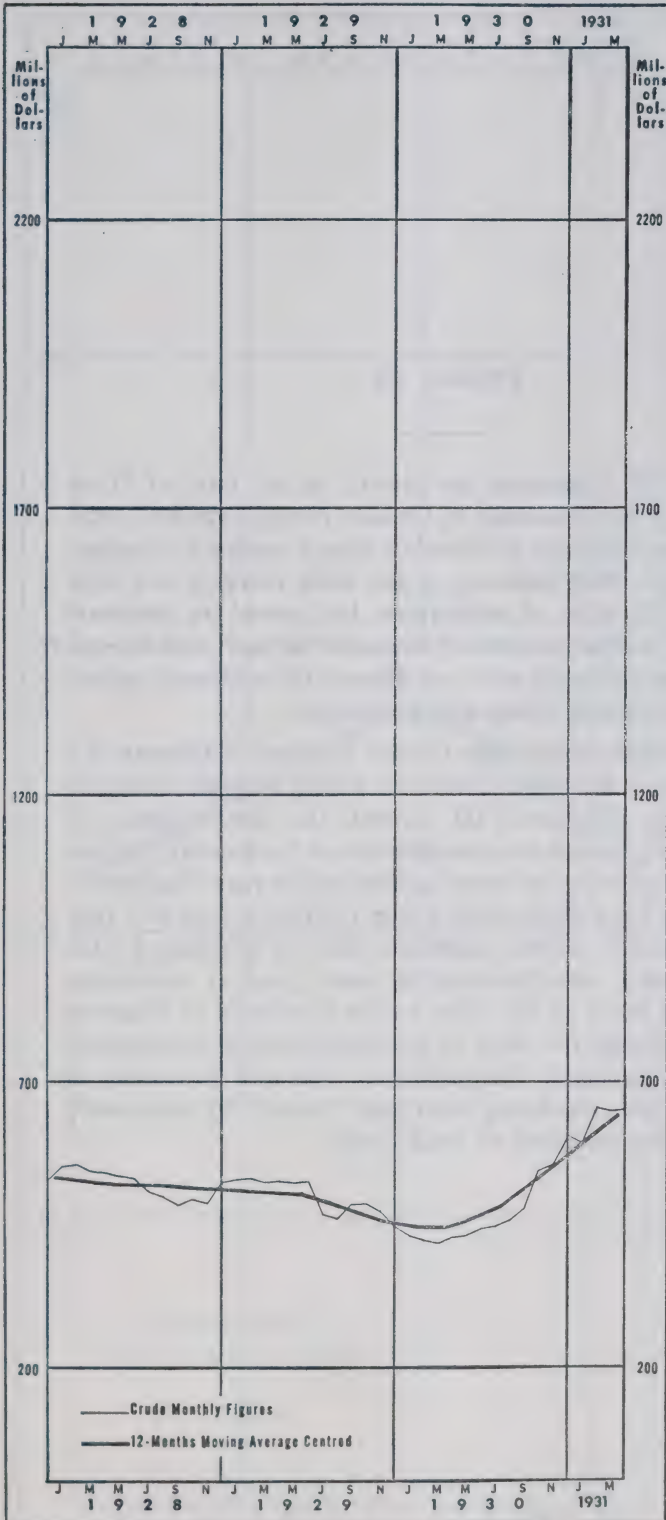


DIAGRAM VIII

**Aggregate
Security
Holdings
of the
Chartered
Banks**

DIAGRAM IX

Diagram IX illustrates the growth in the total of Other Current Loans and Discounts in Canada during 1928 and 1929. Even after the shrinkage of Canada's export income had begun; after the March 1929 shake-up in the stock market; and after the government's index of employment had passed its maximum and begun to decline, borrowers' demands for increased accommodation were still being met—as witness, the continued expansion of Other Current Loans and Discounts.

Not until April 1930, does the line of trend in Diagram IX turn downwards. It is significant that within a month from this down turn (see Diagram VIII above), the banks began to counteract the resultant adverse influence on the country's aggregate purchasing power, by reversing their policy regarding investments. From May 1930, while Other Current Loans and Discounts continued to shrink, Aggregate Security Holdings by the Chartered Banks were increased by more than an equivalent amount. As a result of this (the reader is referred to Diagram VII above), though the force of the depression, in consequence of world-wide economic disequilibrium, was still increasing in Canada, that force was being effectively “braked” by progressive expansion in the structure of bank credit.

DIAGRAM IX

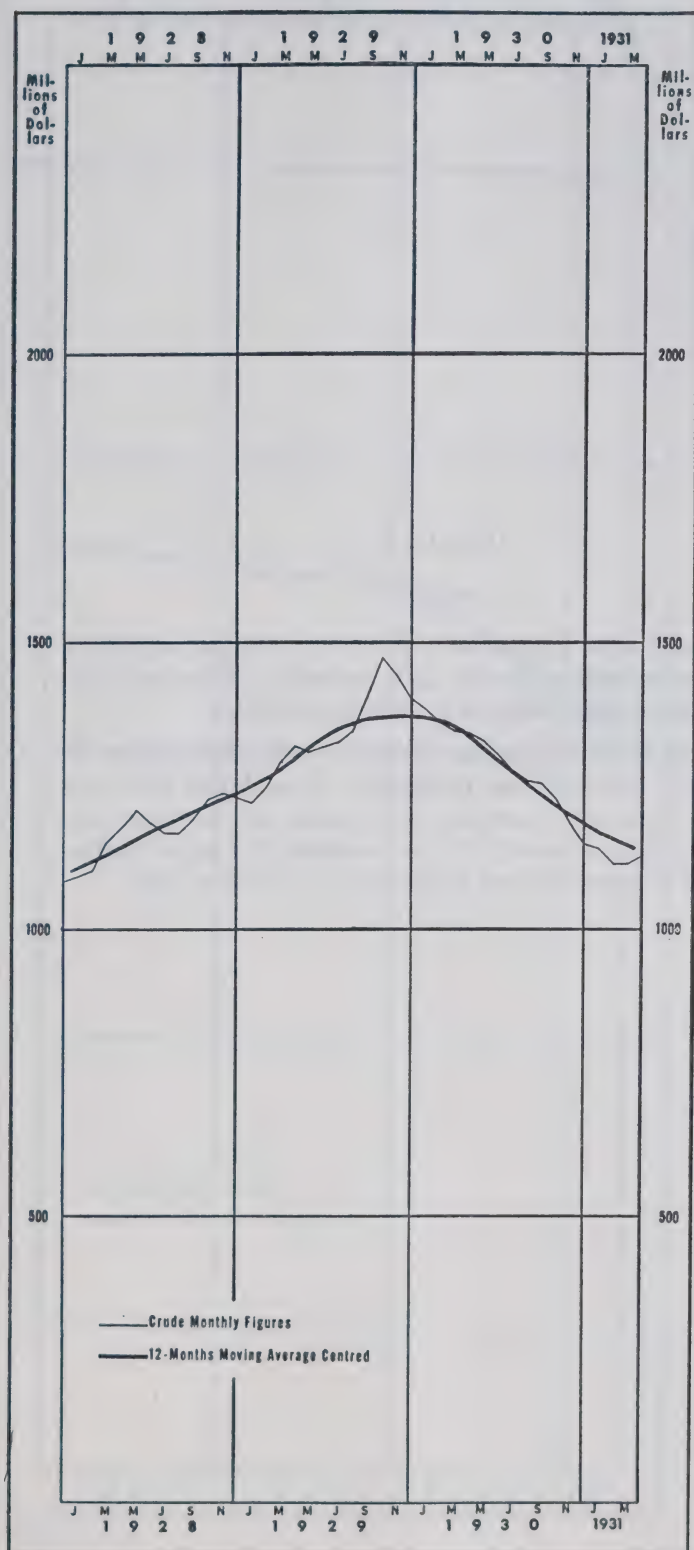
Other
Current
Loans and
Discounts
in Canada

DIAGRAM X

The world-wide influences in which the Depression originated were, nevertheless, by this time irresistible. Here and elsewhere they were being reflected in falling price levels.

Diagram X illustrates the course of Wholesale Prices of Manufactured Goods in this Dominion. Even during the boom years, both here and elsewhere, such prices had already been tending slightly downward. In this country, the rapid decline in the prices of manufactured goods began in January 1930.

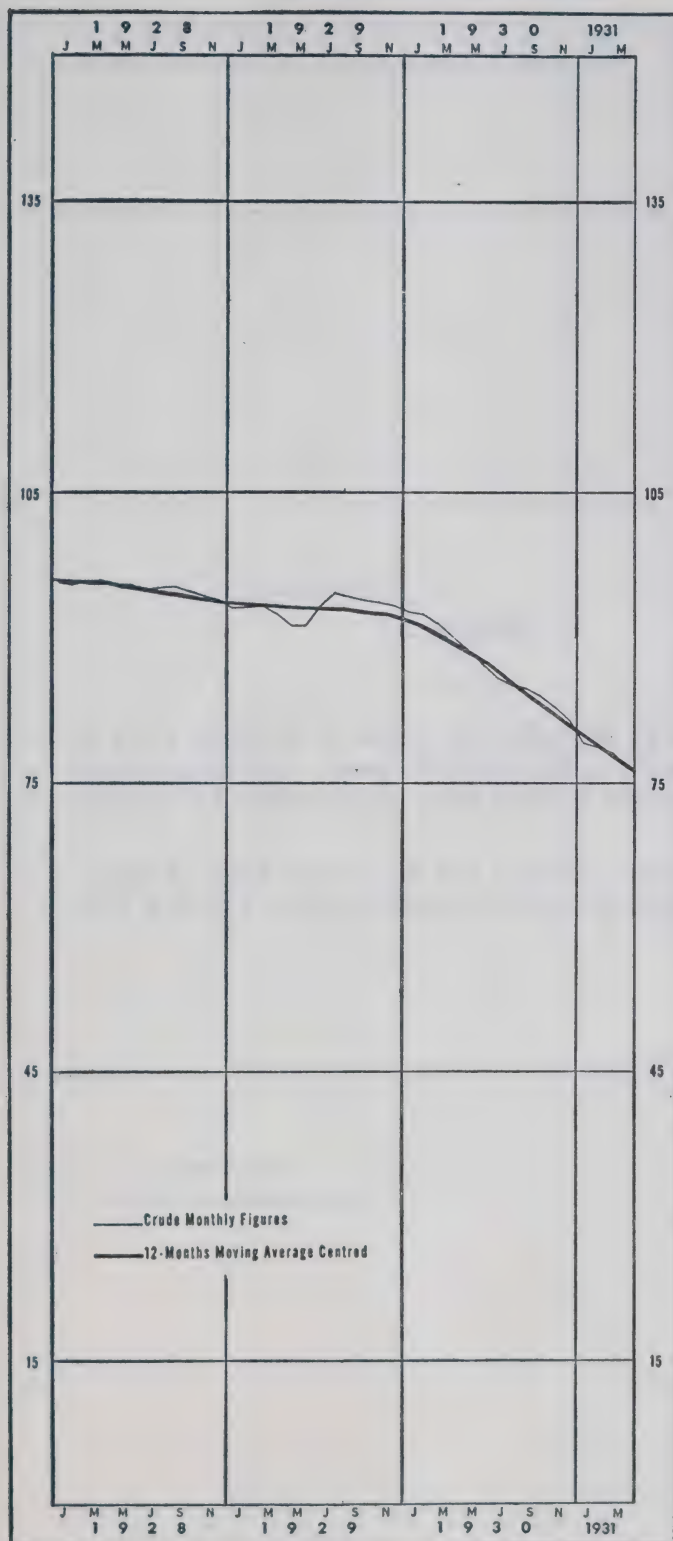


DIAGRAM X

Index of
Wholesale
Prices of
Manufactured
Goods
(1926 = 100)

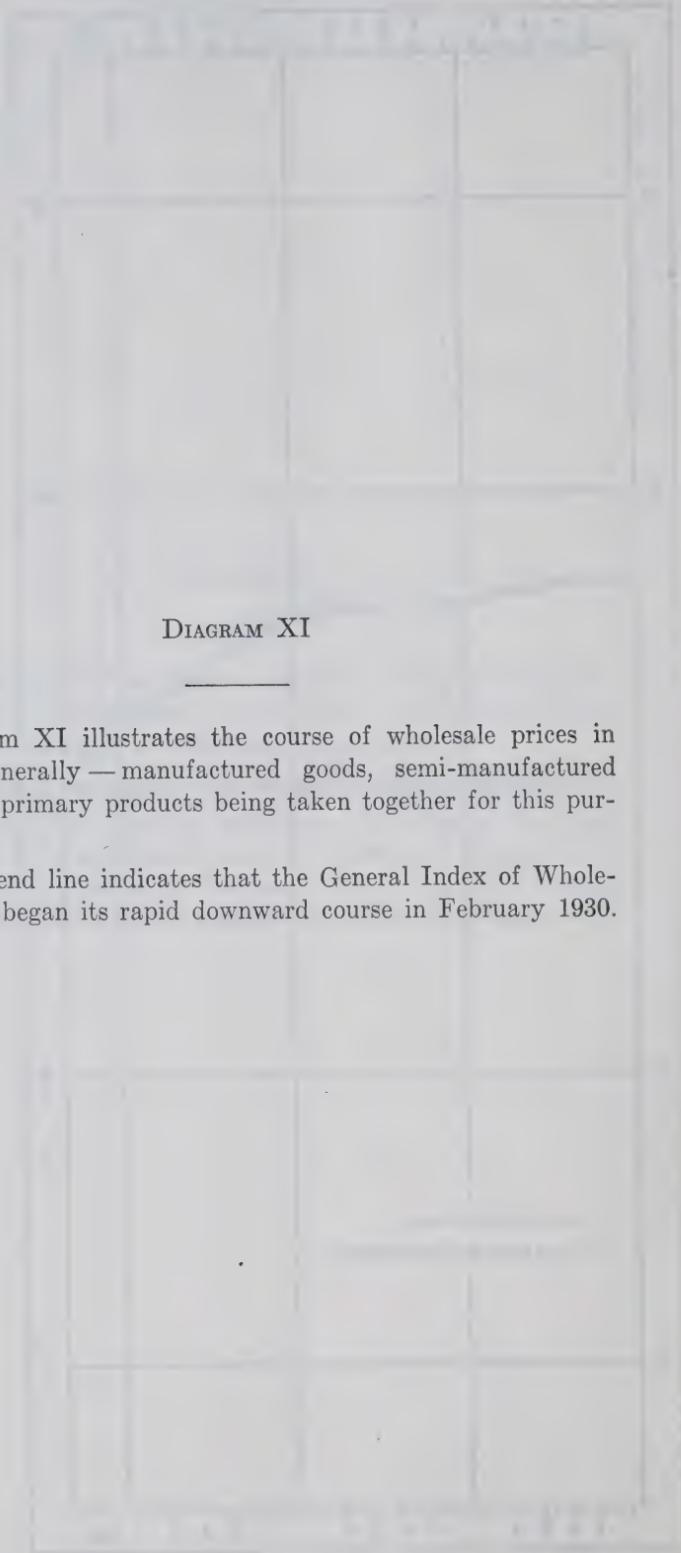


DIAGRAM XI

Diagram XI illustrates the course of wholesale prices in Canada generally — manufactured goods, semi-manufactured goods, and primary products being taken together for this purpose.

The trend line indicates that the General Index of Wholesale Prices began its rapid downward course in February 1930.

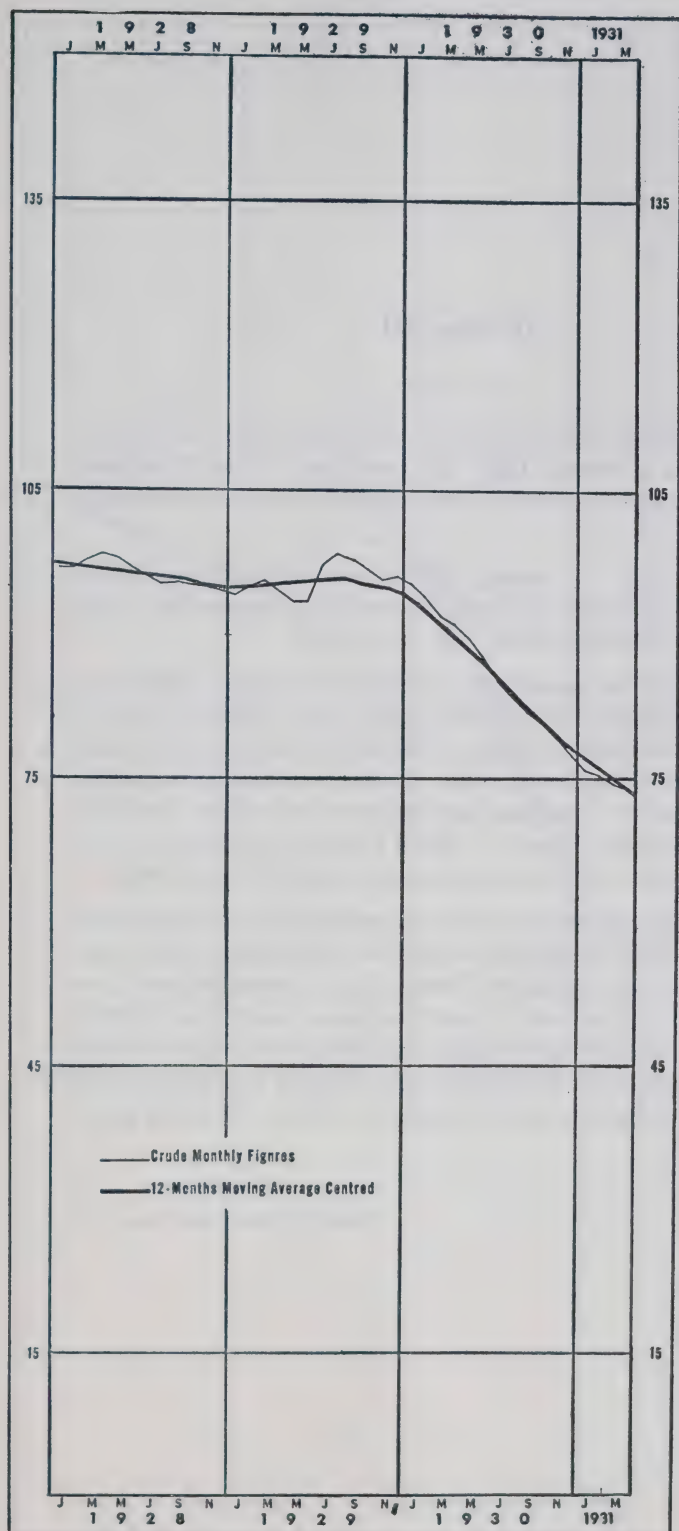


DIAGRAM XI

**Index of All
Wholesale
Prices
in Canada
(1926=100)**

DIAGRAM XII

Simultaneously with this fall in our General Index of Wholesale Prices, in February 1930, the sub-index of the Wholesale Prices of Canadian Farm Products began to slump catastrophically.

By this time, of course, the consequences of the Great Depression were visible in almost all countries everywhere. The shortage of purchasing power was world-wide.

Since by far the greater part of Canada's annual agricultural production is surplus to domestic needs, and therefore must be sold abroad, it was of course inevitable that from this time onwards (until there should come about a world-wide revival of purchasing power) Canadian farm produce as a whole should be sold "on the bargain counter." When a large proportion of one's customers abroad are insolvent, one cannot sell them otherwise.

Suffering became widespread and general in all our industrial cities. For when the farmers were thus deprived of their purchasing power, the market in Canada for all manufactured products was sharply reduced. Great numbers of industrial workers were driven to seek relief from the municipal authorities. Nevertheless, there is little doubt that the severest incidence of the Depression was experienced by farmers—and by the grain growers especially.

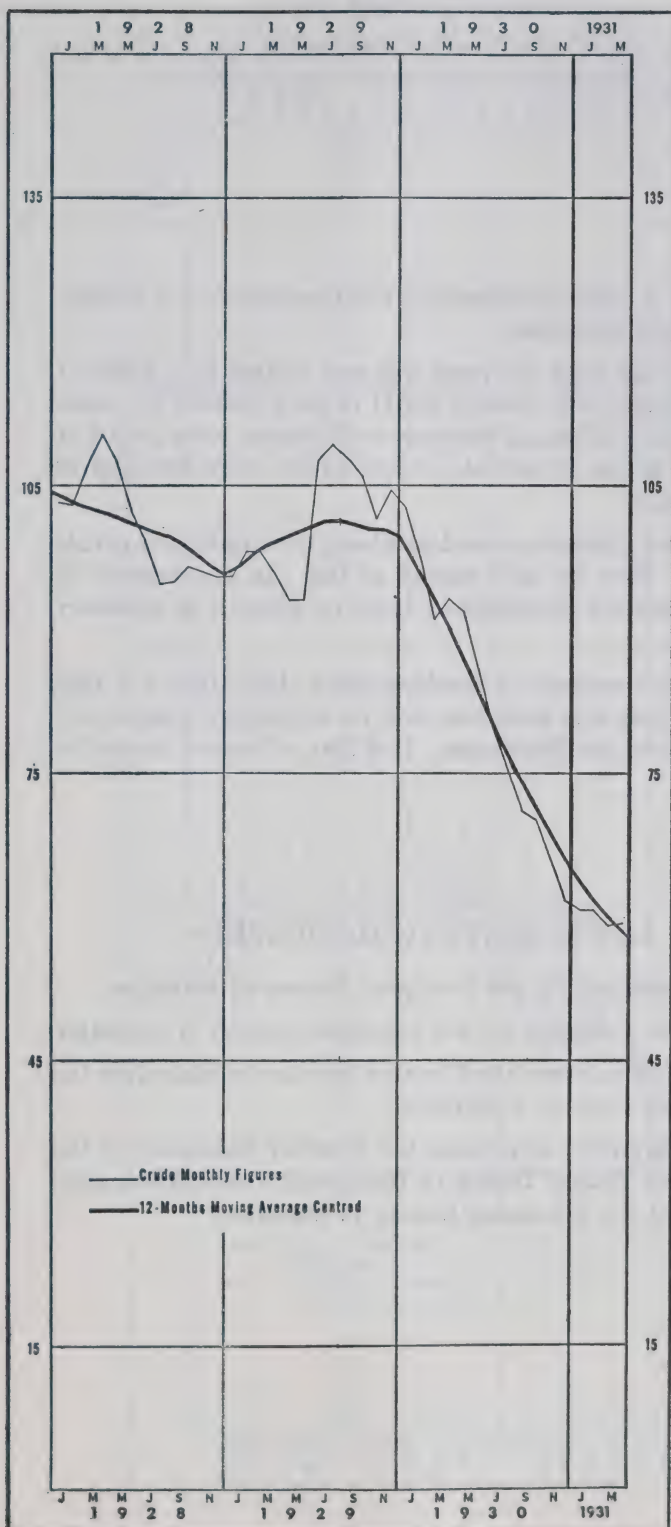


DIAGRAM XII

Index of
Wholesale
Prices of
Canadian
Farm
Products
(1926=100)

This is a tale unfinished—a short segment of Canada's recent business experience.

By 1931 the train of events was well started as a result of which, ultimately, this western world of ours endured its worst agricultural and industrial depression—labouring for a period of years under strains intolerable, except by the very strongest of the democracies.

In a dozen diagrams reproduced here, the sequence of events is pictured. Only by such means as this can one arrange in orderly fashion the thousands of facts, of which it is necessary to take note.

A similar treatment of developments in 1932, 1933 and 1934 would show how this Dominion and its neighbours climbed out of the depths of the Depression. But that, of course, is another story.

LIST OF STATISTICAL SOURCES

EXPORTS: published by the Dominion Bureau of Statistics.

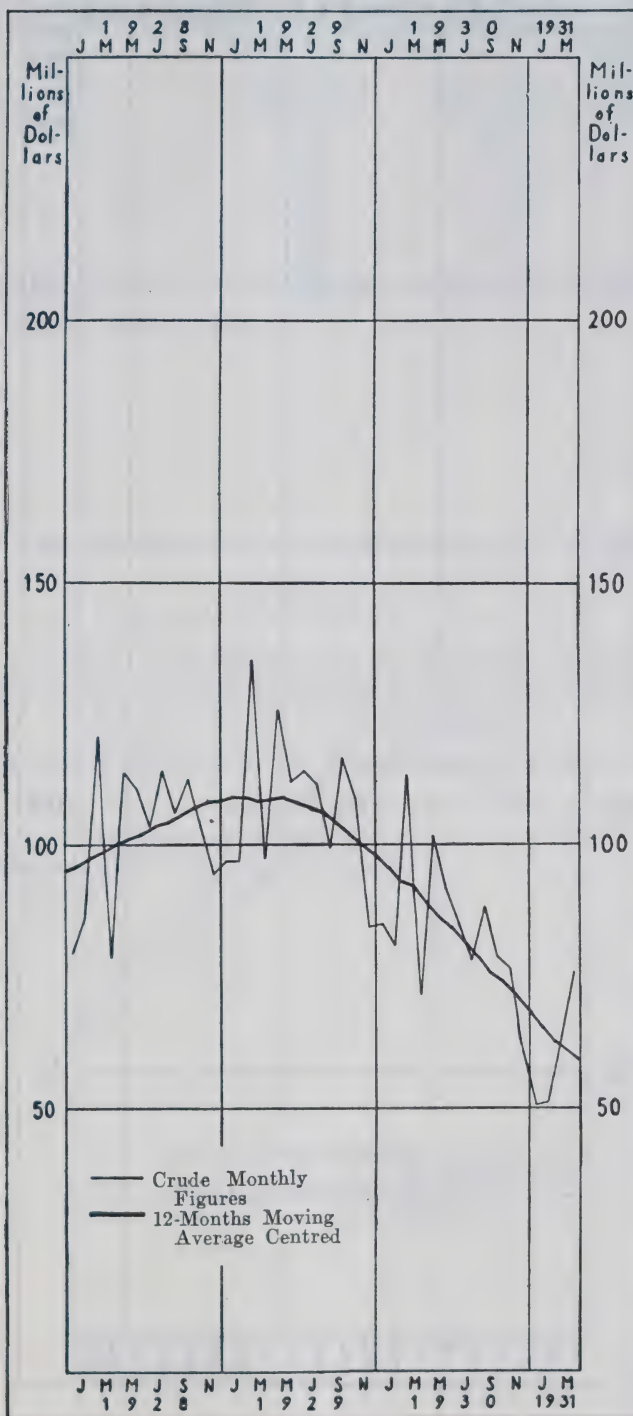
EMPLOYMENT: published by the Dominion Bureau of Statistics.

PRICES OF MERCHANDISE AND COMMON STOCKS: published by the Dominion Bureau of Statistics.

BANKING STATISTICS: in general, the Monthly Statement of the Chartered Banks; Debits to Individual Accounts are published by the Dominion Bureau of Statistics.

EXHIBIT No. 41

A: Merchandise Imports into Canada



B: "Smoothed" Curves of Exports and Imports

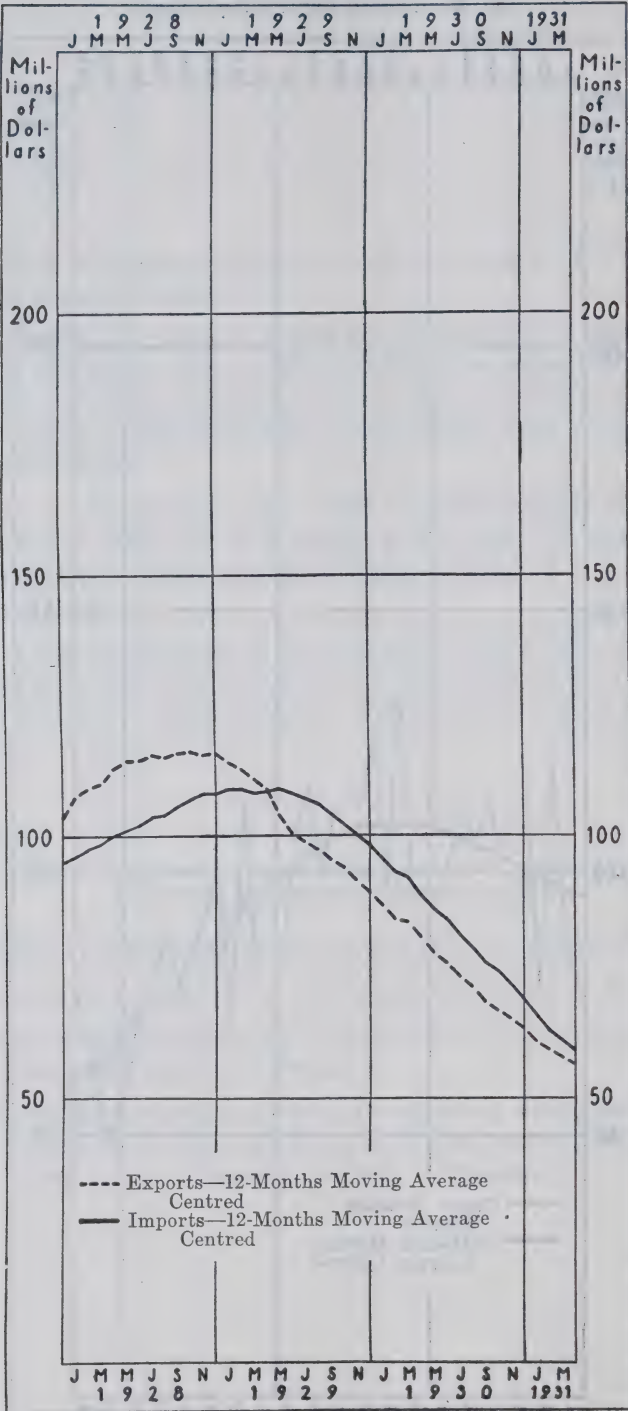


EXHIBIT No. 38

STATEMENT OF MONEYS LOANED BY THE CHARTERED BANKS, BEING ALL
LOANS IN CANADA (INCLUSIVE OF LOANS TO PROVINCIAL GOVERNMENTS
AND MUNICIPALITIES) AND ABROAD FOR CERTAIN YEARS
FROM 1926 TO 1943

Year	Loans in Canada In millions	Loans abroad In millions	Total
1926 (Average).....	\$1,161	\$511	\$1,672
1929 ".....	1,722	549	2,271
1932 ".....	1,314	256	1,570
1938 ".....	982	209	1,191
1939 ".....	1,043	193	1,236
1940 ".....	1,135	182	1,317
1941 ".....	1,220	177	1,397
1942 ".....	1,184	183	1,367
1943 ".....	1,150	183	1,333
1944 (Apr. 30)	962	197	1,159

Statement compiled July 17, 1944.

EXHIBIT No. 39

BREAKDOWN OF ITEM 7 OF STATEMENT OF CURRENT OPERATING EARNINGS
AND EXPENSES AND OTHER INFORMATION OF THE TEN CHARTERED BANKS
FOR THE FISCAL YEARS ENDED IN 1943.

(p. 136 of Proceedings and Evidence of the Committee)

	Millions
Dominion Government Taxes.....	\$11.4
Municipal and Other Local Taxes.....	3.2
Foreign Taxes.....	1.3
Total	<u>\$15.9</u>

MEMORANDA ETCETERA

printed as appendices to the

MINUTES OF EVIDENCE

BRIEF DEALING WITH BANK CHARTERS

ALBERTA FARMERS' UNION RECOMMEND THAT RENEWALS BE ON A YEAR TO YEAR BASIS ONLY.

Next to the problem of winning the war the greatest problem that is looming up is how can we prepare for the reconstruction period to follow.

The members of the Alberta Farmers' Union have proved by their actions that they regard the first problem of paramount importance because they are working themselves to the limit to perform their particular job, which is raising farm produce in order to supply our forces with food.

However, we must keep a proper perspective in this matter. The determination and spirit needed to prosecute the war to a successful conclusion is best aided by having a system in actual operation in Canada to ensure that the fruits of victory shall be available in the manner and to the extent that will keep up the hope of those bearing the brunt of the war that they will be able to enjoy the Peace.

Those who are at present doing this are the same personnel who remember that conditions before the war were the very opposite to that desired by most people.

Further, we recognize that it will be essential to make it possible so that people of every occupation shall have a proper standard of living, adequate leisure and individual liberty and that these fundamentals must not only be enjoyed by favoured sections of the community. In other words right living citizens of every occupation are entitled to the security and comfort that the country is able to ensure at present and to continue until developed to the highest state of efficiency resulting from the development of everything that science and invention applied to natural resources can produce.

During the period 1930 to 1939 and especially during the first five years of this time the farmers of Western Canada were subjected to prices so low that although they produced plenty of grain and livestock their income depreciated to the point where one-third of the people of Canada only received one-twentieth of the National Income (in 1932).

These are recorded facts and we only recount them to prove that a plentiful supply of food stuffs does not automatically bring prosperity either to the people who produce it; nor to the people who are dependent on it to LIVE.

During that same period of time there was terrific unemployment in Canada, over one million people looking for a remunerative occupation in vain.

Although the price of wheat was the lowest it had been in four hundred years yet a large number of our people were not able to buy bread; and relief lines and soup kitchens together with work camps where men received 20 cents per day and board, were characteristic of a country which was so overburdened with real wealth that it did not know what to do with it all.

Further, we were so afraid of greater potential production that we set men to work with primitive tools, like picks and shovels, lest they should accomplish too much; instead of making use of the power machinery which we had together with the means to drive it so as to accomplish something worth while.

There was only one thing the people lacked and that was purchasing power and purchasing power is money. The people cannot produce money but they produce the goods that it takes money to buy. The bankers produce the money and they have this power given to them by the Government of Canada. Therefore, the Government and the Banks of Canada cannot escape the responsibility of being to blame for preventing the people of Canada obtaining access to the goods of which there are plenty to satisfy all.

To sum up, during that period of years the people of Canada underwent an enforced poverty that was imposed on them in spite of the fact that goods and

services had been produced in abundance while potential production was so enormous that it has taken a global war of destruction to find a market of sufficient capacity to absorb it.

The inescapable deduction is that this devastating poverty was forced on the people by those who controlled the issue and withdrawal of financial credit; in other words, the Banks.

No other arguments are required to show that we need an opposite policy to that pursued by them in the period under review to bring about opposite results. And it is absolutely opposite results to those obtained in the past which the majority of the Canadian people desire.

Under no circumstances should the Bank charters be renewed for another period of ten years to provide the banks with an opportunity to continue with a policy which has had such devastating results on the lives and business of the Canadian people in the past.

Charters should be granted on a year to year basis only until the requirements of the reconstruction period have been fully revealed and then the matter can be dealt with in a way that the necessities of the situation demand. The year to year charters will be in the nature of a probation period during which the banks must show that they are able and willing to so conduct the financial credit of the country that it will serve the people as an efficient medium of exchange and fit itself into the requirements of the development and expansion of Canadian industries and reflect the real wealth and credit of the country and provide the people with the benefits of the abundant goods which they are so well able to produce.

All of which is respectfully submitted by the Alberta Farmers' Union.

ALBERTA FARMERS' UNION POLICY

Whereas the heavy debt burdens, ruinous prices and lack of credit facilities, which have brought the agricultural industry of Canada to the brink of disaster thereby threatening the entire National economy in peace and in war, are essentially monetary results of monetary policy, and

Whereas the power of the chartered banks to issue and withdraw monetary credit, which constitutes ninety per cent of the nation's money supply, gives these institutions the real control of monetary policy, and

Whereas the future welfare of Canada and in particular the country's agriculture, depends upon the proper administration of the monetary system in accordance with the requirements of agriculture, industry, trade, commerce and the public welfare, in which the chartered banks have failed miserably in the past,

Therefore be it resolved by the Executive and Board of Directors of the Alberta Farmers' Union that the Banking and Commerce Committee now in session be urged to recommend to Parliament:—

1. That bank charters be renewed for a period of one year only, and thereafter be granted on a year-to-year basis until the monetary requirements in connection with post-war reconstruction have been definitely decided to the satisfaction of the people.

2. That the Bank of Canada Act be amended to permit that national institution to provide the nation with ordinary banking services, and branches of the Bank of Canada be established at key points throughout the Dominion to operate in competition with the chartered banks for the purpose of exercising effective control over the policy and conduct of those private corporations in the interest of the people.

ALBERTA FARMERS' UNION

"Parity Prices for Farm Products"

HEAD OFFICE: 206 AGENCY BUILDING, EDMONTON, ALBERTA

Secretary-Treasurer: H. E. NICHOLS

NEW ADDRESS: 102 LAFLECHE BUILDING, 10045 102ND STREET

JUNE 21st, 1944.

Mr. Norman JAKES, M.P.,
House of Commons,
Ottawa, Canada.

Dear SIR:—The Alberta Farmers' Union is in favour of not longer than yearly renewals of Bank Charters, and thinks the following questions are worthy of consideration.

1. Would the Banks' policy of writing down the value of their assets provide them with a reason for "deflation"?
2. Would the Sun Life be considered more credit worthy after they had "written up" the value of their securities than they were before? (Allowed by Bennett Government.)
3. Would such action make a merchant or farmer more credit worthy?
4. Would it be right to say that a merchant was not credit worthy because he could not sell his goods to people who were not buying merely because they lacked purchasing power?
5. If farmers were not credit worthy because they were unable to sell their goods at such prices as would warrant them getting credit, where did the trouble lie?
 - (a) Was their produce not good?
 - (b) Did they not produce enough?
 - (c) Did they produce too much?
 - (d) Was there no market at all for their goods?
 - (e) Was there a market at a very low price level?
6. Is it not true that with the advent of war, money was put into circulation, unemployed people got jobs, pay rolls increased and effective demand caused by increased bank loans created a market for farm produce at remunerative prices?
7. Is it not true that owing to the action of the Government in issuing Bonds for the purpose of carrying on the war merchantable documents were thus made available to the chartered banks by which they could increase their loans (deposits) enormously. These documents had a tremendous appeal to the people because they were told that it meant the earlier winning of the war if they sacrificed everything else to buy them. Thus the buying of necessary goods was sacrificed to buying bonds.
8. Did not this action show a preference to the banks at the expense of all other business?
9. Could not the Government have avoided "playing favourites" by transacting all its necessary borrowings with the Bank of Canada and made the necessary adjustments to avoid inflation?
10. If not, is this an admission by the Governor of the Bank of Canada that he does not know how to use the powers of the Bank of Canada without causing inflation?

11. Or could he do so if Parliament made the necessary amendments to the Bank and Finance Acts?
12. How is it that under Peace conditions with all international markets open to us a large section of the nation's producers were not esteemed by the Banks to be credit worthy?

However, under peril of war with many foreign markets closed these producers are now credit worthy.

What is the basis of credit worthiness?

It would seem that an enterprise that can cater to a market for destructive purposes is esteemed by the banks to be credit worthy.

But under Peace conditions where there is no market for destructive purposes the same enterprises would not be credit worthy for constructive purposes.

Yours truly,

H. E. NICHOLS,

Secretary, Alberta Farmers' Union.

BILL 91

AN ACT RESPECTING BANKS AND BANKING

*Memorandum submitted on behalf of the Attorney General for Alberta
as to Section 92*

1. The position of a depositor of funds in a bank is that of a simple contract creditor and the *situs* of the debt or chose in action is the Province in which is situate the branch bank in which the deposit was made: *The King vs. Lovitt 1912 A.C. 212*.

The effect of Section 92 of Bill 91 is to substitute a new debtor, the Bank of Canada, for the debtor bank with whom the deposit was made and to release and discharge the bank from its liability to pay the depositor or his legal representative. In the submission of the Attorney General for Alberta such legislation, if intra vires Parliament, would have the effect of removing the *situs* of the debt from the branch bank in Alberta to the head office of the Bank of Canada in Ontario.

2. If the effect of the new section 92 is to change the *situs* of bank deposits the rights of individual depositors will be seriously interfered with and the rights of the Crown in the right of the Province will be prejudicially affected in respect of bona vacantia, succession duty and in addition its legislative power to enact a statute similar to the Quebec Vacant Property Act, Chapter 28 of the Statutes of Quebec 1939, will be impaired.

Rights of Individuals

3. The right of a creditor depositor is one which can be exercised in the local courts of the Province where the debtor bank operates a branch or branches:

Rex vs. Lovitt 1912 A.C. 212.

As a result of the enactment of section 92 a depositor or his legal representative will find themselves at disadvantages, more particularly:—

- (a) suit against the Bank of Canada may constitute suit against the Crown in the right of the Dominion necessitating the grant of a fiat before suit could be commenced.

- (b) action would have to be brought in the Exchequer Court entailing greater expense, especially where small balances were involved, than suit in the local provincial courts.
- (c) no claim could be made for interest in excess of twenty years whereas the present section 92 contains no such limitation.

Bona Vacantia

4. The right of the Crown in the right of the Province to bona vacantia is limited to goods and chattels situate in the Province. An unclaimed bank deposit in a bank in Alberta belonging to an intestate dying without heirs becomes forfeit to the Crown or, in Alberta, to the University of Alberta, by virtue of the Ultimate Heir Act, R.S.A. 1942, Chapter 213. After transfer of such deposit to the Bank of Canada the right of the Province of Alberta to claim the deposits as bona vacantia would be defeated, at least in cases where the transfer is made before the death of the depositor.

Succession Duty

5. In *Provincial Treasurer of Alberta vs. Kerr* 1933 A.C. 710 the Judicial Committee of the Privy Council held that a Province was not entitled to impose taxation in respect of personal property locally situate outside the Province. As in the case of bona vacantia, the right which the Province now has to levy succession duty upon bank deposits lying dormant in Alberta branch banks will be taken away, if the proposed section 92 is enacted.

Vacant Property Statutes

6. Alberta has no Vacant Property Act such as Chapter 28 of the Statutes of Quebec, 1939, and Chapter 57 of the Statutes of Manitoba, 1940. The Quebec Statute has been held to be valid by the Quebec Courts and is now under appeal to the Judicial Committee of the Privy Council. The Attorney General for Alberta desires to retain the full legislative rights of the Province to enact legislation in the nature of the Vacant Property statutes.

Constitutional Validity of Section 92

7. The foregoing observations are made upon the assumption that the proposed section 92 is intra vires Parliament, and the attention of the Committee has been called to the prejudice which in that event would ensue to the Crown in the right of the Province.

It is submitted, however, that the proposed legislation which discharges the bank from its liability to its depositor affects contractual rights of persons resident in Alberta and deals with property situate in Alberta. The legislative power over property and civil rights in the Province and over matters of a purely local and private nature is assigned exclusively to the Provincial Legislature under section 92, sub-heads 13 and 16 of the British North America Act. Accordingly the legislation is beyond the legislative competence of Parliament. The legislation cannot be said to be necessarily incidental to the legislative power of Parliament over banks and banking.

It is submitted furthermore that according to the principles of Private International Law any proviso to the proposed Section 92 as suggested by Counsel for the Attorney General for Quebec declaring that the section should be deemed not to affect the situs of the debt represented by an unclaimed bank deposit would be ineffective because notwithstanding such proviso the situs would have been changed not by virtue of the legislation itself but under the well known principles of Private International Law. See *The King vs.*

National Trust Company, 1933, S.C.R. 670.

8. It is submitted on behalf of the Attorney General for Alberta that in view of the foregoing considerations as to the interference with contractual

rights of persons residing in the Province as well as with the rights of the Crown in the right of the Province, the enactment of the proposed section 92 be not proceeded with or at least be deferred until the Judicial Committee of the Privy Council has passed upon the validity of the Quebec Vacant Property Act.

J. J. FRAWLEY,
of Counsel for the Attorney General for Alberta.

Edmonton, Alberta, 19th June, 1944.

In re:

BILL 91

AN ACT RESPECTING BANKS AND BANKING

SUBMITTED ON BEHALF OF THE ATTORNEY-GENERAL OF QUEBEC
AS TO SECTION 92 OF BILL 91

1. Paragraphs 3, 4, 5 and 7 of Section 92 introduce suggested new legislation that provide for the transfer of unclaimed deposits to the Bank of Canada after ten years and the liability to repay the same by the Bank of Canada to the creditors entitled thereto.

2. The Provinces are vitally interested in this matter, and the Province of Quebec more particularly by reason of its statute intituled "An Act Respecting Certain Vacant Property Without an Owner", enacted in 1939 as 3 Geo. VI, Chapter 28, now embodied in Section 7 of Chapter 102 of the Revised Statutes of Quebec 1941, whereby are deemed to be vacant property and without an owner belonging to His Majesty in the rights of the Province of Quebec deposits which for a period of thirty years or more have not been the subject of any operation or claim by the persons entitled thereto.

3. The Province of Manitoba enacted similar legislation in 1940: The Vacant Property Act.

4. At the present moment there is pending before the Privy Council litigation between the Attorney-General for the Province of Quebec and the Attorney-General of Canada over the matter of unclaimed deposits. The Attorney-General of Quebec under the provincial legislation before mentioned brought suit against the Bank of Montreal claiming delivery and payment of all the unclaimed bank deposits within the Province of Quebec held by the Bank of Montreal for over thirty years. The Bank of Montreal contested and the Attorney-General of Canada intervened on the ground that the provincial legislation was ultra vires as being an interference with the powers of the Federal Government under Section 91 of the British North America Act. The Superior Court of the Province of Quebec held the provincial legislation intra vires, within Section 92 of the British North America Act, the matter being one of Property and Civil Rights in the Province. This judgment was confirmed in the Court of King's Bench, Appeal Side, on June 29, 1943. The Attorney-General of Canada subsequently gave notice of appeal to the Privy Council and the matter is there pending until such time as war conditions allow counsel to go overseas for hearing.

5. A similar question arose in Manitoba and was finally decided by unanimous judgment of the Supreme Court in 1943 *in re* Provincial Treasurer of Manitoba vs. Minister of Finance for Canada holding the Manitoba Vacant Property Act intra vires as dealing with Property and Civil Rights in the Province.

6. The Attorney-General of Quebec wishes to submit in the first place that the new proposed legislation by Bill 91 should not in any way affect pending cases.

7. The Attorney-General of Quebec acknowledges that the Dominion Parliament has full jurisdiction to legislate as to the transfer of unclaimed deposits from the banks to another depositary at the end of a stated period. Under the existing law Section 115 of the Bank Act—which disappears entirely in Bill 91—provides for the transfer to the Minister of Finance of unclaimed deposits in the eventualities therein mentioned. The proposed legislation covers all cases and provides for the transfer to the Bank of Canada of all unclaimed amounts after the lapse of ten years.

8. To this in principle the Attorney General of Quebec raises no objection, but he submits that the rights of the Provinces should be safeguarded as regards the eventual ownership as distinct from the fiduciary or trustee custodianship of these deposits.

9. The mere change in the physical location or situs of these deposits from the various banks to Ottawa might, if the present text remains unchanged, affect possibly adversely not only certain provincial rights but the rights of individual depositors and of their estates as time would pass: questions of court jurisdiction, of succession duties and the possibility of duplication and triplication of succession duties. It is felt that the proposed legislation is not intended to bring about such results but it is submitted that without some clarifying clause there is a very real danger of future complications and difficulties.

Hence the necessity of some clarifying amendment to the effect that any amount transferred to the Bank of Canada pursuant to the provisions of this new Section 92 shall notwithstanding such transfer be considered for all legal purposes as remaining situate within the Province where the deposit was originally made until such time as the depositor, his estate, legal successor or representative or assign asserts his rights and takes over.

Montreal, May 29, 1944.

G. C. PAPINEAU-COUTURE,
Counsel for the Attorney General of Quebec.

OTTAWA, May 18, 1944.

Mr. W. H. MOORE, M.P.,
Chairman, Committee of Banking and Commerce,
Ottawa.

Dear Mr. Chairman:—As a Member of Parliament who is respectful of our Constitution and as Batonnier of a section of the Quebec Bar, it is my duty to protest very strongly against the provision of clause 92 of the Bank Act respecting the payment of outstanding deposits to the Bank of Canada.

I take the liberty to draw your attention as well as that of the members of the committee to a judgment rendered by the King's Bench Court in the case of the Attorney General of Canada vs. the Attorney General of Quebec and The Bank of Montreal, in which it was decided that the Attorney General of the Province of Quebec had the right to claim from banks deposits which had been unclaimed for thirty years. (1943 B.R., 543.)

You will note that clause 92 provides for the nationalization of deposits which have been outstanding only ten years, but there is much more to it. The judgment of the King's Bench above referred to has been rendered nearly a year ago, on June 29th, 1943. It has been appealed from by the Attorney General of Canada and it is still pending before the Privy Council.

If the regular course of procedure were not followed and if the transfer of the outstanding bank deposits which, according to an order of the King's Bench Court belong to the Provinces, were transferred by a stroke of the pen to the Bank of Canada, would it not be a clear case of contempt of court which would destroy the respect of our judiciary in the minds of our people? There should be no confusion between the exclusive powers of the three branches, legislative, executive and judiciary of our constitutional system, and any encroachment of the legislative or executive branches over the judiciary would have the most nefarious effect upon the good government of this country.

To sum up, I respectfully pray your committee to have that in mind when they consider clause 92 of the Bank Act.

This is one instance where it would be most unfortunate and unjust if rights which pertain to provinces were grabbed by the Bank of Canada while the issue is still before the Courts.

Yours truly,

JEAN-FRANCOIS POULIOT.

THE BOARD OF TRADE OF THE CITY OF TORONTO

KING EDWARD HOTEL,

TORONTO, Canada,

May 12, 1944.

W. H. MOORE, Esq.,
Chairman,
Banking and Commerce Committee,
House of Commons,
Ottawa, Ont.

Re Bill No. 91

An Act respecting Banks and Banking

DEAR SIR,—The Council of this Board has been gratified to note from Bill No. 91, an Act respecting banks and banking, that the Honourable the Minister of Finance has amended section 88 to simplify the procedure in giving security which is now complicated and unnecessarily burdensome.

Numbered among the members of this Board are many engaged in commerce and industry who, in the ordinary course of business, borrow from banks under section 88.

In complying with the requirements of this section as at present constituted, these business firms are put to a great deal of what seems to be unnecessary labour in order to obtain loans and we feel sure that the labour involved to the borrower must be equally onerous to the banks.

Section 88 has been useful in making possible for many borrowers whose capital is limited, the obtaining of banking assistance. We believe that the simplification of the procedure as provided in the revised section 88 of bill No. 91 will be encouraging to borrowers and banks alike and, therefore, will be of advantage to the country as a whole.

The Council of this Board accordingly respectfully urges that the Banking and Commerce Committee approve of the revised section 88 when bill No. 91 is before it for consideration and recommend its adoption to the house.

Yours very truly,

(Signed) F. D. TOLCHARD,
General Manager.

THE CANADIAN RETAIL FEDERATION

8 ADELAIDE Street East

Toronto 1, Canada

May 8, 1944.

Mr. W. H. MOORE, M.P.,
Chairman of the Banking and Commerce Committee,
House of Commons,
Ottawa, Ontario.

DEAR SIR,—The members of the Canadian Retail Federation are interested in the proceedings of the parliamentary committee appointed to consider the revision of the Bank Act. We are convinced that our present banking system has in the past, and also during this war, proved to be one of our greatest national assets. We are not only interested in the maintenance of that system, independent of political pressures, but we are most concerned with any proposal that have a tendency to further inflation of our currency or the inflation of credit.

For your information, the Canadian Retail Federation represents all types and classifications of retail organizations, from the small independent merchant to the large national department stores and chains. It speaks for some 30,000 merchants from the Atlantic to Pacific and in total volume of sales represents a very large percentage of all retail business in Canada. A list of our officers and directors, enclosed herewith, will give you an idea of our representation.

We are retaining the services of Mr. Gilbert Jackson. We should like to have your permission for him to follow the proceedings of your committee; and as and when the time is opportune, in the committee's opinion, for him to present our views, we should like to have him appear before the committee for questioning.

Yours very truly,

(Signed) P. K. HEYWOOD,
President

THE CANADIAN RETAIL FEDERATION.

Chairman W. H. Moore, M.P.
And Members of
The Banking and Commerce Committee
Canadian House of Commons.
Mr. Chairman and Honourable Members:

This Brief is entered on behalf of the Canadian Retail Federation, which I have the honour to represent.

In direct membership and through affiliated trade organizations, the Canadian Retail Federation represents every type of retailing in Canada—from the small independent merchant to the large national department stores and chains.

As you no doubt know, there are in Canada no less than 125,000 retail stores. These employ more than 600,000 people, and it may fairly be stated that—including the families of persons employed by retail stores—about 1,500,000 Canadians depend for a livelihood upon the business of retail merchandising.

Thousands of Canadian manufacturers, furthermore, both large and small, depend for the distribution of their products on the Canadian retailers' enterprise and efficiency.

Throughout all your constituencies, the retail merchants are owners or lessees of the most valuable real estate; are among the most substantial taxpayers as regards both local and federal levies; sponsor all worthy causes; and, are active in public affairs. In short, they try to be good citizens.

I should add that the Canadian Retail Federation is a non-political body. We have among our members adherents of all parties. We share with Canadians in all walks of life the desire for a continuance of prosperity, the belief that we can safely be left free to conduct our own affairs, hope for the continued maintenance of private enterprise, and a devotion to the freedom which our forefathers established here.

I have already pointed out that retail business in Canada directly provides employment for some 600,000 persons, and that a much larger number than this depends on it for a livelihood. We have—in common with all of our fellow citizens—a vital interest in making possible employment for everyone after the war. We shall ourselves be spending many millions of dollars when labour and materials become available on rehabilitation of all kinds. We have not in recent years been able to keep our plants either in the best of condition or as up-to-date as we should like them to be. We need new lighting, new display fixtures, new trucks and handling equipment, new store fronts, and—in many cases—new stores. The satisfaction of all these needs will employ thousands of workers in a great many industries over a period of years. But more important is the fact that maintenance of employment everywhere, in our manufacturing and in large sections of our agricultural industries, will in a very large measure depend on the skill and efficiency with which goods are distributed over the retail counters of this country.

We visualize the revision of The Bank Act as a measure which will assist in the maintenance of continuous employment for all, and a satisfactory level of national income.

We believe that there is no banking system stronger than our own; and that the strength of the Canadian banking system is one of our greatest national assets. For ten years, from 1929 to 1939, the people of this Dominion experienced a long and almost unbroken spell of hard times. But it is within the knowledge of all of us that, although Canada (greatly dependent on the sale of her exports in world markets) is especially vulnerable to depression at any time; she did in fact experience a smaller shrinkage of income during the nineteen-thirties than that which occurred in the supposedly less vulnerable United States; and, although great numbers of Canadians experienced hardship then, there was less widespread suffering here than occurred among the people of the United States.

It is our opinion that not the least of the reasons accounting for this difference is the strength of the Canadian banking system. In the throes of the Great Depression, banks in the United States were failing at the rate of hundreds per month. At the close of the Great Depression the whole of the commercial banking system in the United States collapsed, and every national and state bank from the Canadian to the Mexican border was compelled to close its doors. During this period, not only did no Canadian bank fail, but the retail business—and, in fact all Canadian business—maintained their organizations in a sounder and more solvent state than would have been possible in a situation such as existed in the United States. Unquestionably, Canadian business and the Canadian people were spared from enormous losses during these difficult years, because of the strength of the Canadian banking system.

We believe that the maintenance intact of our commercial banking system is of vital national interest; and we note that the numerous amendments to The Bank Act which have been sponsored by the government (all of them, no doubt, intended to simplify banking operations in Canada) do not threaten to change its fundamental character.

In general, we hope that, as soon as may be, the many restrictions on business which have appeared in recent years will be relaxed. At present all business of every kind is drastically regulated by government. Monetary controls and commodity controls, taxation sometimes of an almost punitive character, the system of price ceilings, the virtual rationing of our labour supplies—these and a multitude of other restrictions not only curb inflation and canalize our energies into the war effort, but would under peace-time conditions make it difficult to do business at all.

The retailers of this Dominion realize that these controls have been necessary. They support and have supported them as emergency measures. They will continue to support them as long as the present emergency lasts. Retailers are, nevertheless, individualists. They believe that they can run their own business better than any bureaucracy can run it for them. Furthermore, they would regard, with the greatest of misgiving, restrictive new controls on the banks (at a time when they believe the lifting of controls on other forms of business is approaching) which would in any way make it more difficult than formerly for individual Canadians to secure necessary credit.

We take a keen interest in credit, not only because from time to time, like other business men, we find it necessary to borrow, but also because we grant credit on a large scale to the consumers of this Dominion; and further, because credit is the basis of our business commitments here and abroad.

In a very real sense, the retail merchants are purchasing agents for Canada's entire population. Our commitments in many cases cover long terms. Whether it be rugs from Persia, silks from China, metalware from Benares, pottery from Holland, worsteds from England, or sardines from Norway—the time occupied between the placing of an order and the moment when the goods ordered are taken off the retailer's counter may be twelve months or more. Both as regards the credit that we give and as regards the credit that we receive, we have an overwhelming interest in stability. We welcome—other things being equal—changes that make for stability. Proposals threatening stability we strenuously oppose.

We have had in mind also that ours is a growing national community. This Dominion will not indefinitely contain less than twelve millions of people, nor continue permanently to do business on the limited scale of past experience. We take it, therefore, that there must continuously be provision for the growth of our business institutions, in order that they may continue to serve the growing needs of Canada. In time to come more capital will progressively be needed in order to make possible for us all a larger volume of business. For this reason, we believe, it is in the national interest that no restrictions be placed

on the Canadian Banking System, that would either prevent the banks from giving adequate service as required or that would retard the progress of business organizations.

We note that the government-sponsored amendments embodied in Bill 91 are most of them concerned with detail; with such problems as the subordination in minor matters of the chartered banks to the Bank of Canada; the gradual replacement of other bank notes by the Bank of Canada's notes; the simplification of lending procedures; and the simplification of returns. All of the changes suggested for these ends we believe to be good.

Although as retail merchants we do not obtain loans under Sections 88 and 89 of the Bank Act, nevertheless we have a very keen interest in any measure which extends credit to consumers and thus adds to purchasing power.

As Canadian citizens, we welcome the proposed changes in Section 88 (1), which are intended to fit in with collateral legislation, still to be brought down, and which will make credit available, more readily than in the past, to farmers on intermediate terms, and to fishermen.

We note that Section 88 (1) (g) and (h) covers the making of advances to farmers "for the purchase or installation of . . . a farm electric system" and for "alteration or improvement of an electric system". It is our thought that the definition of "a farm electric system" should be enlarged to include electrical refrigerators, ranges, washing machines and radios when installed on a farm.

We feel that there is ample justification for such a procedure. In order that the farm and its operations may be conducted efficiently, the farm housewife inevitably plays a dual role. Not only does she take responsibility for the proper maintenance of the home (including in many cases direct provision of board and lodging for the hired man); but she belongs also to the farm's working force. She does her own chores, such as gardening, milking, poultry raising; and sometimes butter-making and the picking of small fruits. Her contribution to the farm's work thus directly depends on the labour-saving devices at her disposal in the home, as much as on labour-saving farm machinery. She cannot make her most effective contribution on the farm, unless her domestic tasks are lightened as far as possible.

We do not know whether an amendment to Section 88 (1) (g) and (h) would be required, in order to make provision for this; but if that is the case, we venture to suggest that the term "farm electric system" should be enlarged accordingly.

In the same spirit in which we welcome the suggested revisions above mentioned, we welcome also the principle introduced in Section 91 (2); which will enable customers of the banks, not possessed of suitable collateral, but nevertheless regarded by their bankers as good "credit risks", to secure small personal loans at rates of interest much lower than they would have paid previously to lenders outside the banking system.

Retailing, primarily, is the business of buying and of selling merchandise. Owing to the lack of facilities, a great many merchants have been required to be bankers as well, especially in the financing of goods sold on deferred payments. As there are many expenses connected with this method of selling, it would unquestionably be in the public interest—if such purchasers could secure loans from the banks and thereby increase the percentage of goods sold for cash.

We do not suggest that retailers or other lenders outside the banking system be restricted at all in the amount of credit that they extend—but we do suggest that the extension of the small loan business by the banks should result in more goods being purchased for cash and therefore lower prices to consumers. We believe that the methods of taking security, contemplated in Section 91, are adequate and we hope that loans of this kind will in time come to be made in great numbers.

Confidence is the key to the prosperity of our people. Confidence in the value of our money and confidence in our methods of its administration through our banking system will not only expedite our internal business transactions but will open to us the channels of trade in every country. It is our hope that in your deliberations in regard to the present revision of The Bank Act you will entertain only those measures that best serve the interests of our Canadian people and that inspire confidence in the good name of Canada in the markets of the world.

Submitted on behalf of The Canadian Retail Federation.

P. K. HEYWOOD,
President.

May 29, 1944.

MEMORANDUM BY PAUL A. FISHER, BURLINGTON, ONTARIO, PRESIDENT,
HALTON COUNTY BRANCH OF THE ONTARIO FEDERATION OF AGRICULTURE;
CHAIRMAN OF THE RURAL SECTION, VICTORY LOAN CAMPAIGN FOR
HALTON COUNTY

TO THE BANKING AND COMMERCE COMMITTEE

House of Commons, Ottawa

Long Term Credits for Agriculture in Ontario

Long term credits for agriculture to enable farmers' sons to buy neighbouring farms in their own communities is essential. Present facilities consisting mainly of the Canadian Farm Loan Board are inadequate.

The present set up for re-establishing soldier settlers on farms is inadequate in our county and many of the adjoining counties of Southwestern Ontario, and it is certainly only right that the boys who enlisted in that area should be entitled to establish themselves on farms in the area in which they were brought up if they so desire. At the discussions held by our local branches of the Federation of Agriculture we almost unanimously arrived at the decision that more adequate loans should be available; that the interest rates must be such that farm prices will permit their being paid and that this would probably mean that the Federal Government would have to participate in some way with the banks or loan companies in making the money available at this rate, and possibly participating also in the guarantee. We agreed that if we asked this we then felt that we should be willing to have a competent supervision to direct the farming operations and that these units were operated at least above the average rate of efficiency for the farmers of the province, this supervision to continue until such time as all or a substantial part of these loans were repaid. The farmers nearly always suggested that probably the Federal Government, Provincial Government and bank or loan company should all participate in the loan and in the supervision. It always stood out that the Provincial Government were probably the best prepared at the moment to help in the supervision through the use of their district representative in each county, and that the other two parties would have to provide some type of suitable authority to carry on their part of the supervision.

With regard to the soldier settlers, our discussions took place at the time when the total suggested was \$4,800 instead of the present \$6,000 maximum, and our opinion then was that the Act remain as it was with regard to those who wish to use it in that way, but that an additional amount be available in the counties where farm land is more expensive so that those boys can buy out the older farmers who are wishing to retire and buy them as a growing

concern, which in many instances would require at least \$10,000, and where this type of deal was made with the returned man that then the supervision element definitely comes into force. We felt that this type of a deal should be done probably through an agreement of sale rather than giving title, because of the ease of removing any who because for any reason were unable to complete the deal or who is not going to make a real farmer.

Status of Producers under Section 89 of the Bank Act who Consign their Produce to Commission Houses

Producers consign their produce to commission houses for sale on commission. It has frequently happened that when the commission house involved became insolvent the banks, railroads and other creditors all shared equally or in priority to the producer, with the result that the producer got little or nothing, when he felt that all the money was his except the 10 per cent that he paid the commission house for the commission. My recommendation is that it should be required that these houses which solicit business on consignment of farm produce be required to keep a separate trust account of the grower's money less only the amount of their commission. My suggestion is that this whole problem should be studied by the Committee with the end in view that the priority rights given to the bank under section 89 of the Bank Act would be curtailed to the extent that curtailment is necessary to achieve this result.

Branch in Department of Agriculture to Supervise and Direct Farm Credits

Inasmuch as there is likely going to be a great deal more credit of various kinds given to agriculture in the future and as it will inevitably follow that we farmers will from time to time wish to make adjustments and suggestions and criticisms, we would therefore suggest that the Department of Agriculture establish the necessary branch to study our problems with us and help us solve them, particularly so because we as farmers when we come to Ottawa feel at home only when we are dealing with those in the Department of Agriculture who understand our problems and know us and we know them. We have had very little contact in the past with the Department of Finance and feel, rightly or wrongly, that they do not talk our language and understand our problems as well as agriculture does. This is not an entirely new departure because before the war when we wanted loans for cold storage we had a branch there that we consulted and who prepared the case to present to the Minister of Agriculture, who then got the necessary finances for us. Of course during the war there have been numerous instances of where the Department of Agriculture has looked after our financial needs.

Bill 134 makes provision for a very wide range of short and intermediate term credits which should prove very useful to agriculture. While every reasonable effort has been made to meet anticipated problems which will arise under this Act yet new ground is being broken and it is quite obvious that many problems will arise in the administration of the Act which if dealt with intelligently will greatly improve the working of the Act. We should have a branch of the Department of Agriculture to which branch we could present our views in regard to these problems.

Income Tax for Agriculture

The present Income Tax Act is unsatisfactory to agriculture because of the complexity of the returns which the farmer is required to make, and must be unsatisfactory to the Department of Finance because of the small amount collected and the great expense of the collections, and so I would suggest that this Committee study the feasibility of making the income tax for agriculture a straight percentage of the gross turnover. The farmer knows pretty accurately

his gross income and at the end of the year on a gross income of \$2,500 a 1 per cent tax on that would be \$25, which he can estimate easily, and the total tax that agriculture would pay on the 1 per cent basis on the overall picture for 1943 would be approximately thirteen million dollars.

The Post-War Export of Agricultural Produce

The thing uppermost in the minds of our Ontario farmer at the present time is the fear of the loss of markets in the post-war period. He is frightened of what will happen to him if he loses a substantial part of his market for bacon, cheese, eggs, beef, etc. He remembers that his big competitors in many of these products were farmers in Northern Europe who got the substantial share of the British market, which was the largest importing market in the world. These competing countries were very largely competitors because we in Canada were content to export to them large quantities of coarse grains and other feedstuffs and sell them on world markets very often below the cost of production. This permitted these competitors of ours to keep livestock populations vastly in excess of the quantity which their home production of feedstuffs would have maintained and then to export this finished product. This policy of exporting these coarse grains and feedstuffs was disastrous to us in two ways: In the first place, it was not good farming back here. In many instances we mined our land instead of farming it in the way that nature says is good farming practice, which means that you should keep enough livestock on the farm to consume substantially your production and then return the manure and humus back to that land. In the second place, it provided our competitors with the means of producing the finished product instead of us producing it ourselves. War conditions have changed this and we to-day on the North American Continent have a livestock population nearly adequate to supply ourselves and our allies, and it is taxing us to our utmost at the present time to produce the essential feedstuffs to maintain this livestock population. We should definitely maintain this policy in the post-war period of feeding our own farm produce and then the export business, whether it be in the form of lend lease, mutual aid, quotas or straight sales, should be confined to the finished product.

GENERAL ACCOUNTANTS ASSOCIATION

INCORPORATED BY DOMINION CHARTER

3-4 Geo. V 1913, Chap. 116

DOMINION BOARD

P.O. Box 69, STATION B, MONTREAL, QUE.

February 23, 1944.

Chairman, Standing Committee,
Banking and Commerce,
Ottawa.

Dear Sir:—I am instructed by our Board of Directors to write to you in connection with the Bank Act which is coming up for review at the present session of Parliament.

It is pointed out that Section 55, Clause 1, reads in part:—

The affairs of the bank shall be audited by two persons—who shall be members in good standing of an institute or association of accountants incorporated under the authority of the legislature of any province of Canada.

This wording leads one to believe that the Act recognizes only a provincial charter and discriminates between members and other certificated and equally qualified accountants who are registered under a Dominion charter.

The General Accountants Association was incorporated by Act of the Dominion Parliament on June 6, 1913.

There are now seven branches throughout the principal cities of Canada with a membership of 916 of whom a good percentage are in public practice and of long standing.

Enclosed is a copy of the Act of Incorporation and By-laws and within a few days I will send you a copy of our Year Book which is now in the printers' hands.

It is our understanding that a Dominion charter should, and does, rank equally with a provincial charter and that our certificated members, with the required qualifications, should rank equally for appointments as bank auditors.

It is, therefore, respectfully requested that when reviewing the Act you take into consideration the foregoing and that Section 55, Clause 1, be amended to read:—

—institute or association of accountants incorporated under the authority of the legislature of any province of—OR THE DOMINION of Canada.

Yours sincerely,

JOHN RHODES,

General Secretary.

JR/ME

SUBMISSION IN BRIEF

To the Committee on Banking and Commerce, House of Commons, Ottawa, Canada, respecting the provisions of the Bank Act now before the Committee, and generally, respecting a sound banking policy for Canada.

Unemployment and Economic Insecurity

We submit that it is the past and present high cost of, and the misdirection of the issuance of the medium of exchange of the peoples' labours and the products thereof that has been the direct cause of unemployment, burdensome debts and the inequitable distribution of available goods.

Respecting such high cost, we are prepared to show that the past and present haphazard system of creating and extinguishing money several times in the processing and final production of nearly every item of goods we use is unnecessarily costly.

Respecting the misdirection of the issuance of money, we are prepared to show that, normally, the first consideration in the private creation of money is whether the borrower can pay the rate of interest and repay the loan, which situation results in the direction of our activities into the production of luxury goods which can be sold to those who have savings and who are already well supplied with the necessities of life, rather than into the building of homes and supplying the every-day needs of the average citizen. In other words, normally, the ability to pay the fee ordinarily charged by the chartered banks for the service of monetizing the labours of the people is the prime factor which determines the natures of the activities of the people, regardless of their vital needs.

National Responsibility for Issuance and Recall of All Money

We submit that, since the money units circulating within a nation, are intended to be claims on any and all the purchaseable goods of the nation, the nation must, in the best interests of all classes of people, direct the issuance and recall of all money units. We are prepared to show that so doing will not adversely disturb our present financial institutions, but rather will result in benefit and actual material gain for all concerned.

Full Employment Opportunities a National Responsibility.

We submit that there never has been and never will be any justification for involuntary unemployment in any nation regardless of the international trade situation at any time. We are prepared to show that all our troubles in the past in connection with unemployment have been directly due to our faulty monetary policy.

With respect to employment opportunities, we submit that there never has been overproduction of anything useful, except gold, and that there never can be overproduction of anything useful under a sane system of monetizing first the primary needs of all classes of citizens. We are prepared to show that such a system can be made effective and efficient only through a national planning board acting in co-operation with our Federal, Provincial and Municipal Governments. We do not need additional financial "machinery".

Respecting opportunities for full employment, we submit that this is definitely the responsibility of the Federal Government as the representative of all the people. The accepted practice of private industry is to produce the maximum output of goods and services with the minimum expenditure of labour. Private industry, obviously, cannot be expected to provide jobs for workers regardless of the demand for the products of industry. Full employment entails a co-ordinating financial policy which will ensure "full consumption", a policy which is the responsibility of the national government as above stated.

We submit that the proper direction of the issuance of money into the building of homes, the utilities which serve the homes, and into other necessary public works will pump money into the very base of our economic structure, and will provide ample opportunities for employment for all able and willing workers.

Public Funds for Public Projects; Private Funds for Private Enterprise

We submit that the principle of utilizing public funds for publicly-owned and publicly-operated enterprises and for the production of non-profit-producing units of wealth such as homes, churches, recreational centres, etc., and of leaving the field of private enterprise to be financed with private funds (except to the degree that certain basic industries and enterprises may be publicly financed by request and consent of those directly interested or by public demand), is basic to the successful operation of a truly democratic system of developing and rewarding individual initiative in an economy of private productive enterprise. We are prepared to show that the application of this principle in the operation of a properly organized system of production and distribution will provide more opportunities than ever for safe, profitable investments in the only possible source of profits, namely, productive enterprises.

We submit that all earnings, in the final analysis, must be paid out of production, and we are prepared to show that it will be in the best interests of all citizens to build an economy wherein no earnings are possible except in direct payment of useful services rendered in production, distribution and in all other activities essential to an ever higher standard of living.

We submit that there is no justification for the existence of internal public debt to private money lenders, and we are prepared to show that the real pro-

ducers and the defenders of our nation are paying much more in interest and in the cost of the administration of such debt than they receive in profits (?) on investments in such debt.

We submit that there is no justification for the existence of privately-held mortgages on citizens' homes and we are prepared to show that the cost of financing the average Canadian home should not be more than one hundred dollars spread over the expected life of the home.

We submit that the prime purposes of our system of private enterprise is the development and reward of personal initiative, the maximum efficiency in production, and the liberty of individuals to do the work of their own choosing, and we are prepared to show that the satisfactory operation of our system of private enterprise entails the private financing of all privately owned and operated enterprises and the continuance of a system of private banks and private investment institutions.

We submit that the employment of a government sponsored bank or other agency, in competition with private banks, investment houses and individuals, in financing private enterprises, is *an abridgment of the democratic rights of individuals under our system of private enterprise*, and an encroachment on their fields of personal effort. We are prepared to show that such governmental agencies are highly unnecessary, and if put into operation, cannot fail to become political footballs.

We submit that a definite knowledge of the facts concerning the nature of money, and of our present system of banking are essential to a complete understanding of the underlying principles of a truly democratic system of money and banking, and we are prepared to present to your committee these basic and unchallengeable truths, together with a complete and detailed plan for the national issuance and recall of all money units necessary to the efficient functioning of a truly democratic economic mechanism for Canada.

We submit that the evident confusion among the members of the Committee with respect to the nature of money and the functions of the chartered banks should be cleared up. We are prepared to establish the facts that the chartered banks do not create money for themselves with which to buy bonds; that there can be no such thing as debt free money; that banker debt money is, as a matter of sound policy, issued against many times its face value in real wealth and consequently has more valuable backing than legal tender certificates issued against gold—it is positively not just "wind", as Mr. Slaght is reported to have termed it. That banks lend neither the deposits of their customers nor the "proceeds of those deposits", contrary to Mr. Tower's testimony, as reported; and that issuing Bank of Canada money to purchase bonds from the banks would positively not "in fact be returning to the banks money which had been placed in the banks by depositors and loaned to the Government" as was reported to have been stated by Mr. Fraser.

Post War Financing

We submit that if the National Money System we are advocating is put into operation, Canadian post war prosperity need not be dependent on exports of goods other than the surplus of goods not currently needed in the development of our vast areas, which surplus will be ample to pay for imports needed for a comparatively high standard of living, probably the highest in any land.

We can monetize our own development. If we desire a more rapid rate of economic progress than our normally increasing man-power will permit, we can increase our population at will by simply opening the gates of immigration as widely as we wish to do, having regard first to the desirability of proposed immigrants as citizens, and second, our ability to allocated to them immediately their requirements of durable goods without hardship to established residents. Providing jobs for them will not be a consideration, with a National Money

System in operation. We have the materials. It does not cost money to work. Money is created as a witness of work done and of goods produced. It is not a means of production, more than the books in an office are a means of producing goods in a factory.

Each and every Sovereign State should be encouraged to install a National Money System and to finance its own people in promoting and fostering its own material growth and social and cultural development. Loans of goods from one country that are needed in the development of another country should be from the Government of the exporting country to the Government of the importing country.

There can be no permanent peace until each Sovereign State sets-up and operates a National Money system, independently of international banking rings that are under the control of private economic pressure groups, whose stock-in-trade is "bondage" and not productive effort.

Canada must be freed of such financial domination, and she can be, very simply, if we but possess the gumption to monetize our own mental and manual labors and the products thereof, through the efficient operation of a National Money System.

May 22nd., 1944.

The League for Economic Democracy,

HARRY H. HALLATT,

Hon. Pres.

REPORT TO THE COUNCIL OF THE LEAGUE OF NATIONS ON THE WORK OF THE SIXTY-EIGHTH SESSION OF THE FINANCIAL COMMITTEE ON MEDIUM-TERM CREDIT TO INDUSTRY.

1. The last Assembly instructed the Economic and Financial Organization:—
"to study the methods of providing medium-term credit to industry."

The question was considered by the Financial Committee at its meeting in December last, and arrangements were made for additional information to be obtained from certain countries.¹

It is clear from the documents received that the problem assumes somewhat different forms and proportions according to the capital resources and banking equipment of each country.

2. In current discussions of this problem, the distinction between the need for capital and the need for credit tends to be blurred. It is, in our view, essential that a clear distinction be drawn between these two types of financial facilities.

3. In countries where there is a well-developed banking system and capital market, big industry has in normal circumstances no difficulty in obtaining the financial facilities it needs and can justify, whether in the form of equity money or in the form of short-, medium- or long-term credit. Large undertakings have access to open capital markets where they can sell their securities and to banking institutions where they can finance their ordinary credit needs and bridge over the interval between the time when funds are required and the opportune moment for public issue.

¹ The Financial Committee wishes to express its appreciation of the very valuable assistance rendered to it by various central and commercial banks.

4. The general problem of financing through public issues becomes increasingly difficult in the case of medium- and small-sized undertakings. Such concerns have trouble in placing public issues, whether in the form of shares or bonds. The investing public prefers to put its money into firms whose names are nationally known and whose securities are listed on an exchange. The success of a small undertaking is frequently dependent upon the ability of one person; and the individual shareholder is unable to exercise the constant supervision and control that capital participation requires in such circumstances. In the second place, the cost of issue and of preliminary investigation is, generally speaking, proportionately higher on small than on large amounts.

5. The small industrial concern in need of capital or credit has therefore been accustomed to rely on a few individuals or on local banks knowing the business and the management personally. Frequently, such firms are tempted to finance, through bank borrowing, risks which in their nature are the risks of ownership. Such risks are, however, unsuitable for ordinary commercial banks which operate mainly with short-term deposits; nor can these banks afford to tie up their depositors' funds for long periods in the form of fixed or semi-permanent investment.

6. Medium-term credits can legitimately be granted to industry where the funds will be used productively but where it cannot reasonably be expected that the original advance can be amortised in less than a period of some years. In so far as such medium-term credit requirements exist, it is important for the development of industry and enterprise that small borrowers should be able to cover them. If they rely, however, on short-term bank loans, with prospect of renewal, then not only is there a risk that banking advances will become frozen, but the borrower himself may, at a time of economic pressure, be called upon to repay outstanding financial debts within a period that bears no relation to the original purpose of the commitment.

7. There is therefore a presumption that some credit institutions should exist for the provision of medium-term credit to small- and medium-sized industry. Certain types of medium-term credit requirements can be met by non-banking institutions: for example, the export-guarantee institutions set up by many governments enable credit to be obtained for fairly long periods to finance exports; large producers with ready access to capital and credit sometimes lease equipment or sell it to small producers on a hire-purchase system; automobile finance and gasoline companies extend credit to purchasers and distributors for special purposes. But such initiatives have not covered the whole field, and in many countries special credit organizations have been set up for the provision of medium-term credit to industry.

8. It may be useful for us to summarize briefly the organization of this type of credit in the countries from which we have received information. It is hardly necessary to point out that the organization in each country reflects the peculiarities of its general financial structure and conditions and that it would therefore be misleading to attempt any comparisons between one country and another. Moreover, many of the institutions mentioned below go further than supplying medium-term credits: they make long-term loans and, in some cases, participate directly in the capital.

(a) *United States of America.*

In the United States, the principal source of medium-term credit to small industry up to the great depression was the local unit bank. Such local bank loans were sometimes secured by a short-term mortgage on real assets (a demand mortgage, or one running for one, three or five years) and sometimes were extended on a promissory note of ninety days to six months (with expectation

of renewal), either unsecured, secured by collateral, or guaranteed by wealthy individuals interested in the enterprise. The operations of the borrowing firm were intimately known to the directorate of the local bank, which was thoroughly integrated in the life of the community; expenses of investigation were not heavy.

In the financial and industrial crisis of 1930-1934, loans became difficult to obtain; there were many bank failures, borrowers sometimes found renewals difficult to negotiate. Since the successful resolution of the banking crisis of 1933, the banks in general have, however, returned to their traditional lending practices, and the pressure of funds seeking investment has made them willing to extend credit to credit-worthy borrowers. They have been encouraged to extend credits of longer maturity than ordinary commercial paper by the 1935 revision of the banking laws permitting the Federal Reserve Banks to rediscount, under certain conditions, all types of paper presented by their members, provided it met the test of "soundness". Moreover, bank examination procedures have been revised to distinguish more sharply between "slow" and "doubtful" assets.

In the period of credit stringency of 1932, the Federal Reserve Banks were authorized to make commercial loans direct to industrial and commercial borrowers and the Reconstruction Finance Corporation was given similar powers. High standards were at first required on advances made, and few loans of this type were concluded. In 1934, the law was amended to authorize both the Federal Reserve Banks and the R.F.C. to make industrial loans on quite liberal terms as to maturity, interest rates and collateral, provided they met the test of possessing "full and adequate security". More recently, the R.F.C. has worked on the basis that such loans need only be backed by "reasonable security".

Despite this progressive relaxation of the credit standards required, neither the Federal Reserve Banks nor the R.F.C. have been able to make any considerable volume of advances. The Federal Reserve Banks' industrial advances outstanding at the end of 1938 amounted to only \$17 million; additional commitments outstanding amounted to \$14 million. The total loans of member banks of the Federal Reserve system outstanding at the same date were \$14,000 million. Total applications for industrial loans received by the Federal Reserve Banks from the original grant of authority to the end of 1938 amounted to \$400 million, of which \$175 million were approved. At the end of 1938, the total loans of the R.F.C. to industrial and commercial businesses outstanding amounted to \$108 million.

(b) *United Kingdom.*

Since the Macmillan Commission drew attention in 1931 to the difficulties experienced by small firms in making public issues, a number of companies have been established for the supply of capital and credit to small firms. *Credit for Industry Limited*, a subsidiary of the United Dominions Trust, was established in 1934 with capital of £250,000. The parent company finances the movement of all types of goods by providing instalment and hire-purchase facilities for periods up to three years. Credit for Industry Limited has as its object the provision of capital of a medium-term character to the smaller industrial and commercial concerns whose needs are not large enough to justify the expense of an issue through the usual channels. Loans range from £100 to £50,000 and are repayable within periods not exceeding twenty years. A mortgage or debenture is usually taken as security; the rate charged varies, but "is probably less than the rate usually paid on the preference share".¹ The annual reports of the parent company state that all applications for loans were carefully and sympathetically examined, but that "in only a small number of cases could the application be regarded as legitimate or justifiable". In the first fifteen months of its existence, Credit for Industry Limited granted or approved in principle loans totalling about £1,250,000. Of this amount, less than £250,000

¹ Quoted in A. T. K. GRANT: *A Study of the Capital Market in Post-war Britain* (Macmillan, 1937).

was actually paid out; the balance (apart from small sums awaiting settlement) was not used, because the applicant changed his mind and decided not to borrow or because, "in a great many cases", the money was obtained from other sources, including the banks, or for other reasons not stated. The parent company reported in 1936 that "the work involved in the administration of this company (i.e., Credit for Industry Limited) is still out of proportion to the results, and our return on our investment is inadequate."

The *Charterhouse Industrial Development Company* was founded in June 1934 by the Charterhouse Investment Trust. Its capital is £500,000 and its purpose is to provide money to small undertakings in amounts from £10,000 to £100,000. It is supposed that the company generally takes up preference shares, thus participating to some extent in the equity, and that it invests for periods up to twenty years.¹

The *Leadenhall Securities Corporation* was organized by Schröders in 1935 with a capital of £250,000, "to engage in the finance of medium and small home industrial business for which the normal machinery of the London market is inappropriate." Its investments appear to take, as a rule, the form of redeemable preference shares and some common shares which are repurchased by the proprietor after four or five years.¹

A fourth institution—the *New Trading Company*—also participates in the capital of small- and medium-sized businesses. Other institutions also engage in the provision of financial facilities of the type under discussion; it is not possible to give an exhaustive list. Special mention should, however, be made of the *Special Areas Reconstruction Association, Limited*, formed for the purpose of enabling new enterprises to be established or existing enterprises extended in the Special (Depressed) areas. No capital is subscribed by the State, which contributes, however, to the expenses of management and guarantees 25 per cent of losses on the total amount of loans granted by the Association. Applicants must satisfy the Association that their business has reasonable prospects of success and that they are unable to obtain adequate financial facilities elsewhere. The normal maximum limit of each loan is £10,000 for five years.

(c) France.

In France, too, problems connected with medium-term credits have arisen during the past twenty years. Fear of monetary disturbances and frequent appeals of the State and public corporations to the capital market have kept interest rates high. Moreover, it has been difficult for the private banks to secure large volumes of time deposits which could be used to extend medium-term credits, because public and semi-public savings institutions offer on sight deposits rates of interest at least equivalent to those which private institutions could offer only on time deposits.

However, a type of institution providing medium credit for industry has developed in Paris in the form of affiliates of large deposit banks. At present, there exist four such establishments supplying medium-term industrial credit which are in fact branches of the big deposit banks.²

¹ GRANT, *op. cit.*

² The names, the affiliation and the scope of operations of these special houses are as follows:

Name	Affiliation to the deposit banks	Total assets in 1938 (except <i>comptes d'ordre</i>) Francs (000,000's)
1. Union pour le crédit à l'industrie nationale ^a	Crédit lyonnais and comptoir d'escompte	146
2. Crédit à l'industrie française	Société générale	168
3. Union des banques régionales	Crédit industriel et commercial and a group of regional banks	142
4. Union bancaire du Nord	Crédit du Nord	..

^a This bank founded a branch specialized in the long-term credit to industry (*Omnium financier pour l'industrie nationale*) the total assets of which amounted in 1938 to 116 million francs.

As the capital resources of these special houses are generally limited, they rely on the funds of the banks to which they are affiliated and on the issue of bonds and *bons de caisse*. Their rôle is restricted to the actual negotiations with their clients in respect of medium-term loans, all administrative work being done by the respective deposit banks. They have often acquired important industrial participations. The scope of the operations of these institutions has, however, been limited, particularly for the reasons described above.

Immediately after the war, the Government established the *Crédit national pour faciliter la réparation des dommages causés par la guerre*, one object of which was to assist the entrepreneurs in the devastated areas to finance the reconstruction of their businesses. In the course of the past years, its activity has been extended to cover all types of industrial and commercial enterprise. The *Crédit national* is a private company, constituted by banks and leading industrial groups, but with the management appointed by the Government and the administration controlled by the Minister of Finance. This mixed character assures the bank of considerable resources; on the one hand, advances from the State and issue of bonds guaranteed by it; on the other hand, issue of non-guaranteed bonds which can be readily placed on account of the semi-public character of the institution.

The bank extends loans for a period not exceeding ten years and the aggregate of credits granted to any one undertaking may not exceed 10 million francs (15 millions under a proposal recently introduced in Parliament). Loans are granted, at present, at the rate of 7.15 per cent¹ on the basis of specified security up to a maximum amount of 50 per cent of the security. The volume of loans outstanding at the end of 1938 was 1,500 million francs, of which 400 millions consisted of export credits based on State credit insurance.

To meet the needs particularly of small commerce and industry constituting the clientele of the *banques populaires*, the scope of activities of the *Crédit national hôtelier*, previously restricted to the hotel industry, was extended in 1938 to other types of enterprise under the name of *Caisse centrale de crédit hôtelier, commercial et industriel*; the Caisse devotes part of its resources (about 30 million francs at the present time) to medium-term loans of small individual amounts.

The *Caisse des dépôts et consignations*, an organization which administers the resources of the savings banks and social insurance funds, and the most important unit of the French money and capital market, has since 1931 played a rôle of increasing importance in making available resources for medium-term credit to industry. In that year, it was authorized to accept, *en pension*, bills created by the commercial banks to represent advances—ranging from six months to five years—granted to their industrial clients. In 1938, the rate of interest for such bills accepted *en pension* varied from 4 per cent for six-month bills to 5 $\frac{3}{4}$ per cent for bills payable in four or five years. The total volume of such medium-term credit under rediscount at the *Caisse* amounted at the end of 1938 to 488 million francs.

(d) Switzerland.

There are no institutions specializing in the provision of medium-term credit to industry in Switzerland. Such credit facilities are granted by the big commercial banks, by local banks and—to a certain extent—by the cantonal banks, transacting more particularly business which is not normally undertaken by commercial banks. In Switzerland, the greater part of the long-term funds at the disposal of the banks is raised through the issue of cash bonds (*obligationen*) bearing fixed interest and issued for periods varying from three to ten years.

¹ The effective burden of interest to the borrower may be reduced by grants from the State, within the limits of a sum provided for in the budget, when the loan is used for certain specified improvements or extensions of capital equipment.

(e) *Belgium.*

In Belgium, a special credit institution—the *Société nationale de crédit à l'industrie*—was created as early as 1919 with the object of granting medium-term credit to agricultural, industrial and commercial enterprises. In the first years of its existence, it expanded rapidly on account of the large credit requirements of post-war reconstruction, but its activity slowed down for some years after 1924. After 1928, the volume of its business again increased, its loans outstanding totalling about 1,300 million francs from 1930 to 1934, the greater part guaranteed by private banks. In 1937, its statutes were amended in such a way as to increase the influence of the Government and of the National Bank and to enlarge the scope of its operations, while the maximum term of its advances was reduced from twenty to ten years. Its resources consist primarily of its own capital (subscribed by private individuals and by the private banks) and reserve funds; it also accepts time deposits and issues *bons de caisse* of five-year maturity, the interest on which is guaranteed by the State. Loans must be granted as close to cost as possible, but the S.N.C.I. none the less makes a satisfactory annual profit.

Continuing the policy of increasing credit facilities to small industry, the Government, in 1937, extended the activity of several public credit institutions; the *Office central de crédit hypothécaire*, established in 1936 to assist in the liquidation of mortgage loans, was authorized in 1937 to grant mortgage loans on buildings for industrial purposes. A series of decrees provided for the co-ordination of the institutions entrusted with the granting of credit facilities to the middle classes. The Temporary Credit Fund for the Middle Classes, set up in 1934 and due to be liquidated in 1939, was transformed in 1937 into a *Caisse nationale de crédit aux classes moyennes* and its activity extended to 1959. A decree of 1937 established a *Conseil de coordination des institutions de crédit aux classes moyennes*, entrusted with the co-ordination, with the aid of the National Bank and the General Savings Bank, of the activity of the *Caisse nationale de crédit aux classes moyennes*, the *Fonds de garantie au crédit pour l'outillage artisanal* (created in 1929) the *Caisse centrale de petit crédit professionnel* (created in 1929 and re-organized in 1937) and the *Office central de crédit hypothécaire*. The activity, the organization and the powers of the credit institutions "of public interest" were co-ordinated in 1937 by a *Conseil des institutions de crédit*. These institutions have been only recently established, and the volume of their operations is not large.

(f) *Netherlands.*

In the Netherlands, the establishment of special institutions to finance small and middle-sized industrial enterprises with the help of public funds has been advocated since 1932. The movement started with the creation of regional institutions to study the possibilities of establishing new industries or extending existing industrial enterprises if the required investment capital could be obtained. In 1935, an *Industrial Bank* of Limburg was established, the greater part of its capital being subscribed by the Province of Limburg and a number of large municipalities in this province. The volume of its business is very limited. Later, the Government founded a central industrial bank under the name of *Company for Industrial Financing* with the object of granting medium- or long-term credits to industrial enterprises "in so far as the extension of employment of Netherlands industry may be promoted thereby." The Company may also grant credits to, and participate in the capital of, authorized regional industrial banks, and take over credits from them. The credits are granted on a commercial basis, guarantees taking the form of mortgages, securities, etc. The interest charged is generally 5 per cent. The Company has in some cases participated in the capital of industrial enterprises. From its establishment to the end of 1938, the total of credits approved was 2½ million florins; there have been, in addition, some capital participations.

(g) *Sweden.*

In Sweden, the Government, in co-operation with a number of the larger Swedish banks, established in 1934 a joint-stock company called *Industrial Credits Company* with paid-up capital of 8 million kronor, charged with granting credits not exceeding ten years to middle-sized and small industries and artisans, primarily for the purpose of financing the renewal of plant, the enlargement or rationalization of the existing undertakings and the sale against long-term contracts of products made by the borrower. It may also give guarantees. It normally takes as security real estate mortgages, but also mortgages on plant and stock backed by a personal guarantee. The Company may not accept deposits, but it may issue bonds to the total amount of four times its guarantee and reserve funds; it has not, however, issued any bonds to date. The guarantee fund is a State contribution in the form of Government securities amounting to 12 million kronor. Since October 1937, the rate of interest charged has been $3\frac{1}{2}$ per cent. Loans outstanding at the end of 1938 totalled 4.9 million kronor.

Another medium-term credit institution—the *Shipping Mortgage Bank*—was created in 1930, with the object of granting mortgage loans of ten to twelve years on ships. The State has placed a guarantee fund of 10 million kronor at the disposal of the bank, which may issue bonds up to 100 million kronor. At the end of 1937, the outstanding bond debt of the bank was 37 million kronor and the outstanding loans 38 million kronor; the rate of interest is $3\frac{1}{2}$ per cent.

The facilities offered to medium- and long-term borrowers by these institutions have been supplemented by various loan funds established by the Government to meet the needs of certain classes of industry. A *Fund for Loans to Industrial Undertakings*, re-organized in 1927, grants credits not exceeding ten years for the establishment of new industries, particularly those of importance to agriculture. A *Fund for Loans to Small Industries*, created in 1818, and a *Fund for Loans to Artisans*, established in 1910, supply the working capital or funds for the purchase of machinery to small entrepreneurs. The loan period may be high as six years; the rate of interest is 4 per cent. A *Fund for Loans to the Shipping Industry*, set up in 1903, grants loans to shipping companies to finance renewals and modernizations of ships. A *Fund for Loans on Second Mortgages on Ships* was established in 1936.

(h) *Poland.*

Most Polish commercial banks were originally of the *banque d'affaires* type and many of them have retained the practice of granting to industry credits of the character of medium-term loans. These loans generally take the form of a credit on current account secured by mortgage. During the past year, the *Banque de l'économie nationale*—a State institution—has begun to grant medium-term debenture credits to industry (*crédits obligataires*). These credits may not exceed 50 per cent of the value of the land, 40 per cent of the value of the buildings or $33\frac{1}{3}$ per cent of the value of the machines on which the mortgage is taken. Their duration is three to seven years, and they are repayable in equal half-yearly instalments; in exceptional circumstances, amortization may be postponed for two years. The rate charged is 6 per cent. The *Banque de l'Economie nationale* issues its own $7\frac{1}{2}$ -year State-guaranteed bonds up to the amount of the loans granted; retirement of these bonds takes place *pari passu* with the repayment of the loans on which they are based. It is still too soon to say to what extent there is a legitimate demand for these loans from Polish industry.

(i) *Roumania.*

In Roumania, there was no special institution for supplying medium-term credit until 1937. Before the economic and financial crisis of 1930-1934, entre-

preneurs were in a position to obtain credits at the commercial banks, though at very high rates. With the drastic fall of prices during the depression, most of the loans granted by the commercial banks were frozen. In order to avoid a complete breakdown of the banking system, the National Bank rediscounted large amounts of illiquid bills which it kept in its portfolio during subsequent years. Special legislative measures were adopted to liquidate these debts. In these conditions, the Government created in 1937 and 1938 several official institutions, entrusted with the supplying of credit to the mining industry (*Bank of Gold and Metal Enterprises*), to agricultural industries (*Bank for the Processing and Marketing of Agricultural Products*) and to the middle classes (*National Institute of Artisan Credit*). The resources of these institutions were provided, to a large extent, by the Government; in addition, they were given power to rediscount bills at the National Bank and to issue bonds eligible as collateral at the National Bank and public banking institutions. The total credits granted by the Bank of Gold and Metal Enterprises amounted in 1938 to 552 million lei.

CONCLUSIONS

9. Perhaps the most striking feature of the above summary of the machinery for the provision of medium-term credit in various countries is the fact that the total amount of credit extended by the institutions established for the purpose has been very limited. This is not to say that the question of medium-term credit is unimportant. But the small volume of credit extended does strongly suggest that there is no great unsatisfied legitimate demand at the present time. As business revival becomes more general, the demand will doubtless grow, and there are good reasons for believing that in most countries the supply will keep pace. Where gaps exist in the financial machinery, they are narrow and are gradually being closed. It is difficult, and highly important in each case, to judge to what extent and for what purpose medium-term credits can be granted to industry on a business-like basis. The risks of lending are especially heavy in small industries, where future success is more than usually difficult to evaluate, and where the continuity of efficient management cannot readily be assured in the event of personal changes. Particularly at the present time, when economic and political conditions are changing very rapidly, lenders are reluctant to extend credit, and business reluctant to borrow, for long periods. These are factors which must be taken into account in the granting of medium-term credits. There is, in our view, no legitimate economic case which can be made out why such credits should be granted on a non-economic and highly risky basis. We have not felt that we need concern ourselves with the broad issues of social policy which may be held to justify special measures to support certain sections of the community.

10. The risks of small business, particularly at the present time, are such as to require a high proportion of equity to borrowed money; capital risks should not be covered by credits. Recently, there has been some tendency in certain countries for a few investment trusts and private corporations to take capital participations in small- and medium-sized industries, thus helping to reconcile the desire of the individual investor to diversify his risk (and hold marketable securities) with the necessity of close supervision of the funds employed in industries of the type mentioned. Such developments, though they have not gone very far up to now, are the more interesting, as certain basic tendencies appear to be reducing the volume of capital willing to undertake risks. The growing burden of taxation and increasing desire for liquidity—due partly to political conditions and partly to the necessity of taking into account future fiscal exigencies—has diminished the willingness or ability of wealthy individuals to employ funds in capital participations of a risky and unmarketable nature. Moreover, the increased burden of taxation and Gov-

ernment regulation and the uncertainty of world conditions have reduced the prospective profitability of business, particularly the prospective profitability of new and untried enterprises requiring, under the most favourable conditions, a considerable interval before they can become an assured success.

The broad tendencies affecting the supply of and demand for equity capital—which are of wider scope than the provision of medium-term credit to industry—lie, however, outside our terms of reference: we do no more than mention them as requiring the most serious consideration.

RESOLUTION

NEPEAN WATER RESIDENTS' ASSOCIATION

That whereas the issuance of debentures at low rates of interest similar to the Municipal Improvements Assistance Act of 1938 (now suspended) is a dire necessity to carry out local improvements, post-war work and as a measure of relief to real estate now carrying vicious taxation, and

Whereas the Bank of Canada through the various provincial governments could service municipalities with money at low rates of interest for public service, provided the Bank of Canada Act is amended at the present session of Parliament to allow this, and

Whereas such legislation is long overdue, and

Whereas it has been proved under the Municipal Improvements Assistance Act of 1938 that all municipalities enjoying low rates of interest for public service have met their obligations when due, and

Whereas public service being what it is, the maintenance of health, education, fire protection, policing, lighting, good roads, etc., it should enjoy the lowest carrying charges possible,

Therefore be it resolved that this public meeting does hereby respectfully urge the Minister of Finance, Mr. J. L. Ilsley to recommend the enactment of legislation that will enable municipalities to issue debentures through the Bank of Canada under terms set forth in this resolution.

ANSWERS BY MR. G. F. TOWERS, C.M.G., TO CERTAIN QUESTIONS ASKED BY HON. R. B. HANSON, K.C., M.P., RESPECTING BILL 7

Memorandum

1. Q. I understand that the job of this bank is to advance capital to persons who are establishing or extending industries?

A. This assumption is correct, it being understood that "capital" takes the form of loans to or purchase of securities issued by the industries which are being established or extended.

2. Q. On what ground will you select the industries to be aided? I do not want just an answer that they will be industries of advantage to the nation. I want to know what the tests will be which will be applied. One will have to be, of course, that they cannot obtain capital elsewhere. Another will be, as I understand it, that the industries will pay. Now, if the industry will pay, why should there be any doubt of its being able to obtain capital in the open market?

A. An industry may be operating on a profitable basis but still unable to borrow money in the open market, i.e., by an issue of securities. Because it is of small or medium size, its name is not well-known to investors, and

its securities are not likely to command a ready market—an important factor in the minds of original investors who may find occasion to sell. In some cases these handicaps can be overcome, and small issues can be sold to a limited number of investors. But in that event it will usually be found that the borrower has to pay very high rates. The difficulties are all the greater in the case of industries which have not a long earning record behind them, or which are just commencing business. So far as the question of the availability of bank loans is concerned it is not usually the case that industrial enterprises can obtain accommodation from commercial banks where the period of repayment is likely to extend over several years.

3. Q. Is it not a fact that by giving this aid to industries which you select, you are using the power of the Government to favour certain industries, and the localities where they are established, as compared with other industries in other localities? It is a fact, of course, that every industry in Canada competes, to some extent, with every other industry, for labour, for power, for materials of all sorts. Why should the Government assist one industry in preference to others?

A. Industries will not be "selected" by the Industrial Development Bank. It will deal with applications received, and will endeavour to apply the same type of impartial judgment to each one. On this basis, no locality and no type of industry will receive a special form of preference. It is true, of course, that certain concerns which could not now obtain medium or long term loans from existing sources of credit will be able to do so under the new regime. This implies that a company, whose standing has been such that it has been able to borrow all the funds that it required, whereas some of its smaller competitors have not, loses the advantages of that position—if they can be called advantages.

4. Q. Dr. James has said that we ought to expect, if we are to keep up our Canadian standard of living and progress, that about 20 per cent of the national income should be devoted to capital—to the providing of new operating equipment, or the improvement of present equipment. The national income is supposed to be running around eight billion dollars per annum at present, and 20 per cent of that would be \$1,600,000,000. I do not suppose that you expect that your bank will be able to obtain a return on its investments on the average, in less than ten years. There are not many businesses which can hope to repay their capital quicker than that. Therefore, your bank would add 10 million dollars a year to the capital funds available in Canada. Is it worth while having a bank to add 10 million dollars to \$1,600,000,000?

A. I have some reservations in regard to the figures mentioned in this question. Nevertheless, it can be agreed that the volume of capital investment required to maintain a satisfactory level of national income will be large. Even if circumstances are such that the loaning authority of Industrial Development Bank is increased by Parliament at a later date the proportion of its loans to total capital investment may nevertheless be relatively small. In my opinion, however, the need for helping and encouraging sound development will be so great that we cannot afford to neglect any opportunity whatever.

I might also mention that I would expect the effect of Industrial Development Bank would be greater than the size of its own loans and investments would indicate. By putting up part of the money needed for a given project it would often be the means of encouraging other lenders and investors to participate; without Industrial Development Bank participation the project might not be undertaken at all.

5. Q. How do you propose to stand out against political pressure? I suppose you know that if you build a factory in Regina, Winnipeg or Moose Jaw will want one. If you have any factories in British Columbia, Alberta will be

asking for them. British Columbia will want to be treated as well as the Maritime provinces. The Maritime provinces themselves will want fair treatment as compared with each other. Ontario and Quebec will put up quite an argument as to which gets the most. How do you propose to deal with this? I particularly do not want you to say that there will be no politics in this, for I should like to remind you that it is the duty of this Parliament, elected by the people, to guard the expenditure of their taxes. To guard that expenditure, the members of Parliament have to decide what line they will take, and that decision will be made along party lines, and anyone who tells you otherwise is just kidding you. In plain language, everything which the Government of Canada finances is subject to political control, and is going to be as long as we have a representative government in Canada. What I want you to say is how you propose that a government bank is going to stand out against political pressure.

A. Each application should be dealt with fairly and impartially on its merits. If those who are responsible for the management of Industrial Development Bank fail to operate along these lines, they should be removed.

6. Q. I know that the Treasury and the Bank of Canada are in the hands of very competent people, but that does not seem to save us from some pretty rash financial policies. For example, I have noted that the C.N.R., when it put up its reconstruction program to a committee of this House, said that it was going to spend 260 million dollars for projects which might not pay and 103 million dollars for projects which would not pay, because these projects were desirable. I have not heard either the Treasury or the Bank of Canada telling the C.N.R. that their business is not to worry about what is desirable, but to run the railway at a profit. How do we know that the Bank of Canada is going to take any better stand on other projects—especially if the time comes when the governor of the bank is not as good a man as you are?

A.—I am not very familiar with the C.N.R. proposals, but my understanding is that no spending program would be undertaken unless it received the approval of Parliament. As to the stand which might, under certain circumstances, be taken by Bank of Canada, I make the same reply as to Question 5.

7. Q. If this bank is not established, do you really and seriously believe that anything will go very wrong in this country as a result? If so, what? If not, why should we adopt this radical departure from the principles of allowing private enterprise to function on its own steam?

A.—As already indicated, I believe that the problems ahead of us are so great that everything possible should be done to remove obstacles which stand in the way of expansion and development. Certain enterprises would not be able to obtain legitimate credit needs from existing sources. This would mean that a certain number of people would miss an opportunity to obtain employment.

8. Q. Is it not a fact that a very small reduction of the taxation of corporations would render a great deal more capital available for investment than this bank can ever put into circulation?

A.—The only way that such a question could be answered would be to know how much the Industrial Development Bank would finally be authorized to lend and what scale of reduction in corporate taxes is contemplated. However, if corporate taxes were reduced there would still be enterprises which would not be able to finance expansion out of their own net earnings and there would still be some enterprises which would find difficulty in obtaining longer term funds from present sources.

May 16, 1944.

UNITED FARMERS OF CANADA, SASKATCHEWAN SECTION

MEMORANDUM FOR PARLIAMENTARY BANKING AND COMMERCE COMMITTEE,
MAY, 1944

As Bill No. 91 respecting banks and banking is now, after second reading, being discussed by the Banking and Commerce Committee of the Parliament of Canada, we, the United Farmers of Canada, Saskatchewan Section, herewith submit our views upon this important and very vital subject. As an organization of Farmers, we have for many years consistently held that the money and credit instruments used by the people of a nation have no just or moral right to be owned, controlled or operated by private individuals or corporations.

We contend that a nation's money and credit system is a utility devised to expedite the exchange of goods for goods and goods for service of all the people of the nation, and as such it is the responsibility of the people to own, operate and intelligently control (through elected Governments) their own monetary system for service to all, as a public utility.

When leaders of the Dominion of Canada in 1871, passed the Bank Act, which conferred to private companies, Charters, which allowed them the sole right to issue and control the people's medium of exchange, they did so without any mandate from the people other than that they were elected by Canadian citizens, to administer the affairs of Canada, and we contend by the act of conferring by charter, the banking service of the nation to private corporations, the people's parliamentary representatives of 1871 shirked their own responsibility and transferred their own public duty to others.

The Parliament of Canada is again at or near the time when they will either approve the action of previous parliaments, by passing Bill No. 91 and thereby shirk their own public responsibility and duty by extending the charters of the ten commercial banks now operating in Canada, for another ten years, or parliament will take the steps necessary to assume responsibility of operating the money and credit service of the nation as a public service to Canadian citizens.

It is not enough to merely say that the public would not approve of public operation of bank services. To that we reply, the entire public have never been requested to directly express themselves upon the matter and parliament has never requested a direct mandate from the people, for which negligence we consider parliamentary representatives have been remiss in their duty as servants of the people. Except for the limited sectional education service conducted through organizations vitally interested in the subject of money, credit and banks, the general public has never had an opportunity to thoroughly understand all that should be intelligently known in regard to the subject of public or private operation of banks and banking.

Perhaps the most extensive educational service that has ever been conducted upon the subject, is that which has been performed and dramatized over the air and the widely printed publicity material of the Canadian Chartered Banks, during the past two years particularly. We consider that as the money and credit system of Canada is actually the heart which must regularly and evenly pulsate to keep the economic body properly functioning, it is therefore too important to the very life and well-being of the nation to be entrusted to private corporations.

No government of Canada would dare turn the very important and efficient postal service of this Dominion over to a private corporation without first recognizing that as servants of the people they must first secure the necessary consent from their masters to do so

We can only therefore assume that in the case of the money and credit service, which is of even greater importance to the economic life of the nation the influence of bankers and financial leaders has displaced public authority over the elected public servants of the people.

CREDITS FOR AGRICULTURAL DEVELOPMENT

Dealing with the problems that have from time to time confronted farmers in the prairie provinces: In the early stage of agricultural development it required that a considerable amount of credit be made available for that purpose, and as there was no other source from where such credit could be secured, than that of the Chartered Banks, farmers had no other recourse than to secure credit from that source at rates of interest far in excess of that which the law of the country allowed them to charge. These excessive charges imposed for the use of Bank credit and also for farm machinery and other necessary materials which in those pioneer years ranged from eight to twelve per cent and higher in some cases, soon forced the early settlers to recognize the handicaps under which they were operating, and as a result a farmers' organization was formed in Saskatchewan, with the late Honourable W. Motherwell as the first president. Those farmers hoped that by organized effort, many of their difficulties could be overcome in an intelligent and orderly manner.

They proceeded to make inquiries into various matters then affecting their industry, such as credits, interest charges, freight costs, marketing and customs duties, etc., all of which in reality affects their operations as farmers.

As they arrived at their conclusions, after study and due deliberation, they would from time to time make representation to governments but our records show that very little consideration in those early years was ever given to the many proposals for changes which would have made it possible for agriculture to obtain legitimate credit requirements at a reasonable rate of interest and on suitable terms of repayment.

As early as 1908, our annual convention presented the following resolution to the Federal and Provincial Governments:—

That great loss and inconvenience to farmers having been occasioned through the banks refusing advances on stored wheat and bills of lading, the government be urged to devise some remedy.

We will cite one case to exemplify the situation which resulted in the above resolution.

A farmer near Saskatoon had wheat in the elevator which could not be moved out on account of car shortage. This wheat had a market value of \$900. The farmer in question was being pressed by a mortgage company for a due payment of \$300. He endeavoured to secure that amount from the local banks, offering as security, his stored wheat, but was advised by the banks, that they could not advance the necessary loan until his wheat was on track.

In 1910, we urged upon the Federal Government, "that steps be taken to have the banking laws so revised as to enable the farmers to develop the country, by securing credits at reasonable rates of interest and on longer terms of repayment". As no attention was given and no action taken by the Federal Government upon that resolution, farmers began to see the futility of negotiating with Federal Government. In 1913, a resolution was presented demanding:—

That the Provincial Government should, without further delay, formulate a scheme whereby a farmer may obtain from the security of his land, money at a lower rate of interest than is now charged by the existing financial institutions.

As a result of this resolution, and continued pressure, the provincial government in that year (1913) appointed a Royal Commission of inquiry into agricultural credits. The Commission held sittings in Canada and proceeded their inquiry to the United States, and many European countries. This report was filed with

the Saskatchewan Government on October 13, 1913, and we recommend that report for perusal by your committee, because it shows that even at that time, agriculture was in a precarious position, largely through an unjust and expensive banking and credit system.

On page 65 of the report it states that: "All thoughtful citizens will regard the present situation as calling for serious attention", and on page 216 we find that in the opinion of the Commission, "The present banking system is inadequate."

We believe that if the recommendations of the 1913 Commission had been carried out by the government, there would have been an improvement in conditions at that time. But again the government failed us. However, after further representations to the Provincial Government, the Saskatchewan Farm Loan Board Legislation was passed in 1917, but unfortunately it could not at that time function for the lack of capital.

BANK INTEREST WAS AND IS TOO HIGH

In spite of continued refusals by governments to take the action necessary to meet our just requirements, we nevertheless continued with the task to secure credits at lower interest rates. We recommended amendments to the Bank Act whenever same was before parliament for revision. In this effort, we were ably supported by farm organizations in other provinces. We have repeatedly requested that the Act be amended and the necessary legislation be enacted which would make possible, that municipalities and provinces obtain credit at cost by placing securities with the Dominion Finance Department. Also we requested that the Bank Act should provide a penalty when banks charge more than the interest rate established by law and contained in the Bank Act.

The justice of the need for such penalty action is well proven by a district court judgment given by Judge McLorg in the case of Royal Bank vs. Pete Perapalkin et al. of 1924, which is recorded in the Saskatoon Judicial district's number 528. The bank had sued and obtained judgment; the defendant appealed the case, on the ground of excessive interest rates charged by the bank, and in sustaining the appeal, the judge said in part as follows:—

Here the plaintiffs deliberately take security, and exact from the debtor two per cent more than the law, under which their charter was granted them, allows; having done that in default by the debtor they sign judgment for this amount to which they are not entitled which is a premeditated calculated action on their part, in defiance of the act. I can see no justification for it, and I am of the opinion that if in such cases the judgment allowed them to amend, it would simply encourage this state of affairs. At the hearing I was not definitely asked to set aside the execution, the defendant's solicitor considering, I expect that the judgment being set aside, the execution must naturally fall, and that I think, is so. But the execution is registered against the defendant's lands, and to obviate the necessity of any further application I think the whole matter should be dealt with now, and I will consequently make an order setting aside the judgment and the executions, with a direction to the registrar to expunge the writ of execution. The defendant will be entitled to his costs of the application.

Dated at Saskatoon this 10th day of March, A.D. 1931.

Signed E. A. C. McLorg, L.D.C.

While it can be seen from the above that there is recourse at law in such matters, it is nevertheless well known, court proceedings are costly and generally beyond the pale of the average farmer. It is of course well known that until recent years farm machinery companies charged eight per cent on current credit debt and nine and ten per cent on over due accounts, mortgage companies eight and nine per cent on first mortgage on farm property, with a one or two per cent interest rise on renewal after five years.

However, in the cases of those companies there was no recourse at law, as was the case with banks. Those years were simply good hunting for private enterprise and open seasons on the western farmers. It must stand out in history as the eighth wonder of the world that western agriculture survived the exploitation of those days of rugged individualism.

It would be interesting to search the bank records to find the entire amount of illegal interest exacted from borrowers of credit. It is our opinion that the government owes such search of records to the public and the amount involved in such discovery should be returned to the rightful owner.

The years, however, which must stand as an indictment against the chartered banks of Canada were the late twenties, when the banks invited borrowers to go on a credit spree with them; when the credit chest was thrown wide open, then with the financial collapse at the end of 1929 the lid was clamped tight on the credit chest, and the banks almost completely tied up the credit facilities of the nation, and in consequence trade, business, manufacturing, administration and domestic living, rapidly dropped to a state of stagnation. For a period of time the entire national, provincial and municipal economies were at a complete standstill, and not until national leaders did some financial manoeuvring such as devaluing the gold content in the dollar, and consolidating and refunding existing debt at lower interest rates, and thus create further security necessary to obtain further credit, was the nation's economy able to function at a relief standard level.

Not only was bank credit denied to western farmers during that time, but the banks further demanded and got, second mortgages on farm property as additional security, also mortgages on the tools of his livelihood, his chattels.

When our Wheat Pools over-paid the growers of the 1929 crop, the banks refused to be satisfied with the security they had advanced the necessary credit upon, and demanded further security. Governments then stepped in and cleared the banks from any danger of loss.

We did not blame the private banks for refusing to advance further credit, regardless of the fact that they were largely responsible for the situation. As viewing their position in the cold light of reason, their first responsibility and duty is to protect the invested capital of their shareholders. If service to the public can be administered without jeopardizing the interest of shareholders then such service would be administered.

However, regardless of what may be said to the contrary, circumstances have proved, that the investment of shareholders is paramount over service to the public by Canadian private banks. It is ironical to note the pride where-with some of the Government leaders point to the solid condition of our Canadian Chartered Banks as compared to the condition of banks in the United States and elsewhere.

The answer is simple, our banks will take no risk if possible, but if any of our banks do inadvertently find themselves faced with danger of loss, the Government benevolently relieves them of any risk, and that the Government will safeguard them against any risk is well exemplified by the Government's decision to secure the Banks against loss in advancing credit to farmers for the purchase of machinery, up to ten per cent of the loans.

We submit that the record of Bank policy in Canada has been a primary factor in retarding the great economic potentialities of our nation, which has

now been proven by the astounding industrial and agricultural production, which is without question the highest per capita production achievement in history. With some assistance from the Government workers and farmers stepped into this gigantic task in 1940, not with the assistance of banks. In the case of farmers, they had lost confidence in the present Chartered Banks.

The working portion of 11,500,000 Canadians have during the past four years, shaped a new economic pattern, upon the languid foundation of the past. Every step in developing this new pattern, involved an element of risk. It called for inventativeness, and initiative. It required vision and the spirit of venture, which is not lacking in the men and women of our country, if given the opportunity, to display their skill, arts and talents. This high quality of incentive and the will to do, must be maintained and encouraged to further heights, to make Canada the great nation it can be.

It is our considered belief that the no venture policy of our Chartered Banks will prove to be an obstacle in the way of such economic and social advancement.

The Canada we envision, can only be developed with freedom to individuals to apply themselves to the labour or service of their choice; freedom to develop many new enterprises; freedom of governments to administer the affairs of provinces or the dominion without fear or favour, and freedom of the intelligent use of the credit instruments of the nation which is essential and vital to such development. We have refrained from submitting a maze of figures in this memorandum, and have also refrained from submitting a lot of technical banking phraseology.

We consider the only matter that has to be decided, is whether or not the men responsible for the operation of Canada's banking and credit system are fit and proper persons to be entrusted with such important responsibilities.

Our considered opinion is that, the present operators are not fit and proper persons to be entrusted with the operation of the nation's money and credit instruments, for the following reasons:—

(1) Many of their past transactions have been questionable in character, and have been a transgression from the privileges allowed them under the Bank Act.

(2) They proved inefficient during the years from about 1924 to 1929 inclusive, in that during those years, they did not or would not foresee the effects of their inflationary action.

(3) They failed the nation in the subsequent years of extremity.

(4) They refused to voluntarily assume their proportionate share of the loss suffered by almost all Canadians, individually and collectively.

(5) They refused to stand by their accepted securities for loans advanced, and demanded further security on many occasions.

(6) They call upon governments to assume responsibility for transactions entered into by themselves, where the ability of the borrower to pay had become questionable.

(7) Because no private individuals or corporations are fit and proper persons to operate a nation's money and credit instrument.

We therefore recommend that Bank Charters be extended only one year, and that steps be taken by the government of Canada to administer the banking and credit system of the dominion, with the least possible disruption, and that except for the elimination of unnecessary duplication, the present public service structure be maintained.

All of which is respectfully submitted.

F. T. APPLEBY,
President.

FRANK ELIASON,
Secretary.

WORKERS' EDUCATIONAL ASSOCIATION OF CANADA

A Brief, submitted to the Parliamentary Committee on Banking, the House of Commons of Canada on Bill 91, section 91, subsections 1, 2 and 3, dealing with the rate of interest which may be exacted by a bank in Canada, on large or small loans and the methods by which interest charges are to be quoted to a borrower, and computed by a bank.

The House of Commons of Canada

Bill 91

An Act respecting Banks and Banking

91. (1) Except as hereinafter in this section provided, no bank shall in any part of Canada excepting the territories stipulate for, charge, take, reserve or exact any rate of interest or any rate of discount exceeding six per centum per annum and no higher rate of interest or rate of discount shall be recoverable by the bank.

(2) Where a loan, evidenced by a promissory note, repayable in substantially equal instalments, does not exceed five hundred dollars in principal amount and, so long as the loan is not in default, is not secured otherwise than by endorsement of the note or by insurance on the life of the borrower in favour of the bank as the insured, the bank may stipulate for, charge, take, reserve or exact discount or interest at a rate which, having regard to the term of the loan and the frequency of the instalments, does not exceed a rate of interest per annum equivalent to the rate resulting from a discount of five per centum on a one year loan repayable in equal consecutive monthly instalments, and no charge other than those authorized in this subsection may be made by the bank in respect of any such loan whether by way of service charge, fee, fine, penalty, commission or otherwise except the actual cost to the bank of the insurance aforesaid and interest on overdue instalments at a rate not exceeding the maximum rate permitted under this subsection.

(3) Where the interest or discount on any loan or advance amounts to less than one dollar the bank may, notwithstanding anything contained in subsections one and two of this section, stipulate for, charge, take, reserve or exact a total charge in respect of interest or discount, not exceeding one dollar, provided that where the loan or advance is not in excess of twenty-five dollars and the interest or discount thereon is less than fifty cents, the maximum charge in respect thereof shall not exceed fifty cents.

This Brief deals with Bill 91, section 91, subsections 1, 2 and 3, concerning the maximum rates of interest and other charges which may be imposed by the Chartered Banks of Canada on loans.

Subsection 1 states, in effect, that no bank shall charge a rate of interest or a rate discount exceeding 6% per annum.

Subsection 2, states that on loans of \$500 or less, to be repaid in monthly instalments over a period of one year, a bank may deduct 5%.

On a casual reading, subsection 2 may look reasonable enough, but a more careful examination will show that the clause is not as innocent as it first appears.

Under subsection 2, on a loan of \$100 a bank is authorized to deduct \$5 as interest and advance \$95 to the borrower. Thus the interest charge is \$5 on \$95 and if the borrower had a full year to repay the \$100 the rate of interest is just over 5½%. But the borrower must pay back 1/12 of the \$100 (\$8.33) at the end of the first month.

This payment reduces the net loan to \$86.67 and the actual rate of interest on the \$8.33 principal paid back at the end of a month is $5\frac{1}{4}\%$ a month or 63.16% a year. On the principal repaid in the second instalment the effective rate is 31.58% a year. On the third payment the *real rate* is over 21% and so on. It is only on the twelfth payment that the *real rate* of interest is $5\frac{1}{4}\%$ a year and this applies only to that portion of the principal unpaid at that time, viz. \$3.33.

The real rate of interest on each instalment is shown in table 1. Under the terms of this bill, the borrower signs a note for \$100. The bank deducts \$5 and the borrower has \$95 for one month. He pays back \$8.33 and has \$86.67 for a month. The last column in table I shows the real rate of interest on the monthly repayments of principal. These real rates range from 63 per cent on the first payment to $5\frac{1}{4}$ per cent on the last payment. The actual interest cost to the borrower is very different from the rather innocent looking 5 per cent mentioned in the bill.

The real rate of interest is hidden by combining the particular method of repayment recommended in section 91, subsection 2, and by applying the rate of 5 per cent, not to the unpaid balances at the end of each month, but to the original sum borrowed, including the interest charge itself.

This is shown clearly in table I which was developed for the single purpose of demonstrating the real effect of this method of exacting interest.

The computation of the average real rate of interest which a borrower would have to pay under section 91, subsection 2, may be computed by simple arithmetic by finding the equivalent amount which a borrower would have to pay at the end of a year on a loan for one year. The question may be put in this way. What percentage of a principal sum, borrowed for a year, would the borrower have to pay to equal the interest charges proposed in this Bill? The answer is \$10.17 on each \$100, a rate of 10.17 per cent.

TABLE I. THE REAL RATE OF INTEREST

Under Bill 91, s. 91, ss. 2, Canada

The borrower signs a note for say \$100. He receives \$95. The interest charge is \$5 on the loan of \$95, or 5.25 per cent. But part of the loan is paid back in a month, part in two months, etc. The real rate of interest on each payment is shown below.

Month	Principal payments at the end of each month	Real rate of interest on principal repaid each month Per cent
1	\$8 33	63.16
2	8 34	31.58
3	8 33	21.05
4	8 33	15.79
5	8 34	12.63
6	8 33	10.58
7	8 33	9.02
8	8 34	7.89
9	8 33	7.02
10	8 33	6.32
11	8 34	5.74
12	3 33	5.25

The development of this equivalent rate of 10.17 per cent is shown clearly in table 2. Assume that the amount involved is \$100. Under Bill 91, the bank is authorized to deduct \$5 and advance to the borrower \$95. At the end of the first month the borrower pays back \$8.33 and therefore has a net loan of \$86.67 for another month. But he pays back \$8.34 at the end of the second month and thus has \$78.33 for a month. The items in table 2, column 2 show

the net principal for each month. By adding these amounts we find that the borrower had the equivalent of \$590 for one month. This is equal to a loan of \$49.16 for one year. The interest charge was \$5. The real rate of interest per annum is, therefore, 100 times $\$5/\49.16 , or 10.17 per cent.

It is important to note that even this rate is not the highest effective rate which the borrower may have to pay. In many cases, loans of this type may be refinanced before the payments have been completed and the procedure of discounting is repeated. Thus the rate mentioned may be applied more than once during a given year, with all the cumulative effects on the real rate of interest which the borrower pays.

TABLE 2. THE REAL RATE OF INTEREST

Under Bill 91, s. 91, ss. 2, Canada

Computation of the real rate of interest on a loan of \$100, discounted at 5 per cent and payable in 12 monthly instalments. (Assume that interest (\$5) is included in the final payment.)

Month	Net principal balance	Payment on principal at end of month	Interest payment
1	\$ 95 00	\$ 8 33	
2	86 67	8 34	
3	78 33	8 33	
4	70 00	8 33	
5	61 67	8 34	
6	53 33	8 33	
7	45 00	8 33	
8	36 67	8 34	
9	28 33	8 33	
10	20 00	8 33	
11	11 67	8 34	
12	3 33	3 33	\$5 00
	<u>\$590 00</u>	<u>\$95 00</u>	<u>\$5 00</u>

The principal involved is equal to \$590 for one month, which is equal to \$49.16 for one year, on which the interest charge is \$5. Therefore, the real rate of interest is $\$5/\$49.16=10.17$ per cent.

In computing the real rate of interest, it is quite possible to assume any one of many possible conditions. Interest is paid twice a year on the Bonds issued by the Government of Canada. It might be assumed that interest paid twice yearly is the proper basis of comparison. The computation of such a comparison involves a formula and a trial and error approach. To reduce the rate under Bill 91 to a real rate on the monthly unpaid balance is slightly more involved and gives a real rate on this assumption of less than 10 per cent. What is called a constant ratio method (the ratio of interest to principal in each monthly instalment is assumed to be constant), gives an equivalent real rate of 9.7 per cent for the rates proposed in subsection 2. It is not the question of whether the real rate is 9.7 per cent or 10.17 per cent with which we are concerned. It is the fact that the stated rate of 5 per cent proposed in section 91, subsection 2 results in a real rate in the neighbourhood of 10 per cent and that in fact the real rate may be much higher due to refinancing loans payable by instalments.

The practice of hiding the real rate of interest either by deducting a fixed amount or a rate from the face value of a note, or by adding such an amount or rate to the net proceeds of a loan, which is to be repaid in instalments, has been widely used both in the United States and in Canada by money lenders who operate outside the law. More recently, the practice has invaded the field of retail selling, so that the real charges may be hidden from the customer.

TABLE 3. THE REAL RATE OF INTEREST
in a typical case of Retail Credit

An article sells for \$100 cash, or \$10 down and \$10 a month for 10 months.

Month	Principal	Payment on principal	Payment on interest
1	\$90	\$10	
2	80	10	
3	70	10	
4	60	10	
5	50	10	
6	40	10	
7	30	10	
8	20	10	
9	10	10	
10	0	0	\$10

This loan is equivalent to \$450 for one month, or \$37.50 for one year. Thus the real rate of interest is 100 times $\$10/\37.50 , or 26.66 per cent.

A typical use of this device for hiding the real costs of credit from an innocent purchaser is illustrated in table 3. While the apparent rate is \$10 on \$100. Or 10 per cent yet the real rate is 26.66 per cent. It may be argued that an intelligent person knows that the real rate is 26 per cent and that dealers or financial agents should be allowed to quote and compute charges in any manner which may appeal to them. But it appears to be well established that the common people are not aware of the problem, or recognize it only when it is too late to be of use to them. It has been estimated by William Trufant Foster in Public Affairs Pamphlet No. 61, that the total credit of this nature, advanced to consumers at the end of 1940 in the United States amounted to \$9,190,000,000. This is equal to the call loans advanced to the New York Stock Market in 1929 by the financial institutions of the world.

The evils associated with this enormous business constitute one of the great social problems of the age. An excellent survey of the whole problem can be found in Law and Contemporary Problems, Vol. VIII, No. 1, published by the School of Law, Duke University in the winter of 1941. The entire number is devoted to this question and fourteen authorities contributed articles. At an earlier date (March 1938), the annals of the American Academy of Political and Social Science produced a comprehensive issue on Consumer Credit. There can be no doubt as to the magnitude or seriousness of the problem. It may be sufficient here to point out that the evils associated with short term personal loans are universal, that they exist in comparable degree in Canada, and that the vicious element of the business centres about the practice of hiding the real costs from the borrower by means of fees and penalties and by the device of applying the interest charges to the principal sum when the loan is made, rather than on the unpaid balances.

Two major contentions are hereby offered on this particular point in section 91, subsection 2.

First, it is contended that it is neither fitting nor desirable that a government should recognize or recommend a method of making loans and collecting interest and principal which hides the true rate of interest. Under subsection 2 the real price of money would be double the rate which most borrowers would think they were paying.

In the second place, it is contended that no government, and in particular no government of a democratic country, should deliberately divide its people into two classes, those who can afford to borrow more than \$500 and those who cannot afford such an amount, for the purpose of establishing a higher rate for the less fortunate people.

If the rates of interest mentioned in subsection I, namely, 6 per cent interest, or the higher effective rate of 6 per cent discount, are to be the

maximum rates which the banks may collect from large borrowers, then it is contended that they should be the maximum rates for the small borrower as well. It may be recognized that borrowers of large amounts are frequently able to bargain for a very low rate. It is possible that very few large borrowers ever pay a rate approaching the maximum discount indicated in subsection I, whereas the borrower of small amounts has less bargaining power and may frequently have to pay rates which approach this maximum.

To return to the first point, it is strongly contended that whatever maximum rate of interest a bank may be allowed to collect from a small borrower, this rate should be stated clearly and openly, so that it can be readily understood by anyone, and so that there may not be the slightest suspicion of the honor and integrity of the banking institutions of Canada.

Many public spirited men and a number of highly reputable finance companies have been working for years to eliminate the evils which have so long been a part of the small loan business. It is no longer the loan sharks, completely outside the law, who constitute the greatest menace to society, but those persons and firms who operate just within its fringes. It is in this dusky area that expansion is likely to occur in the post-war years and cause the greatest hardship and suffering. Any slightest tendency to waver on the part of the government in setting the highest ethical code for the Chartered Banks of Canada shall undoubtedly encourage and stimulate the development of the most harmful and vicious practices. It is contended that the regulations established in the Bank Act, and the practices of the Chartered Banks under these regulations, will establish a pattern of financial practice which the majority of financial firms of Canada will tend to follow.

As a general guidance for social policy the census of 1931 shows the population of Canada to be 10,373,000, of whom 380,000 had incomes of \$2,000 or more, and only 180,000 had incomes of \$3,000 or more for the year 1930-31. Less than 4% had incomes of \$2,000 and less than 2% had incomes of \$3,000 or more. Of the 10,000,000 people who did not have such an income, about 4,000,000 had incomes of from \$1 to \$2,000, and the other 6,000,000 were presumably dependants. These 10,000,000 people had a total income of \$2,718,000,000 or an average of \$272 on which to live and this average income was drastically reduced two and a half years later.

It is not necessary to dwell on the precarious nature of life for most of these people, nor is it necessary to explain all the hopes, ambitions or tragedies which might induce them to seek temporary financial aid.

It should be obvious, that they are the people least able to protect themselves, and least able to bear the burden of high costs. Every extra penny means to them the sacrifice of things which we all consider the elementary necessities of life. As a matter of social policy these people should be protected from the recognized forms of exploitation, of which hidden interest charges is a glaring example.

The rate of interest is recognized as an important factor in economic life. A number of countries have adopted central banks for the expressed purpose of regulating the rate of interest.

The maintenance of full employment, or, what amounts to the same thing, a high level of production and consumption in the post-war period is accepted as an objective of all countries. Lord Keynes, the celebrated authority on economic matters, has stated in his book "The General Theory of Employment, Interest and Money", that there are three practical means of reaching this objective, viz. an easy money policy, a low rate of interest and government expenditures. From the statements of the Minister of Finance and the repeated statements of the Governor of the Bank of Canada, it appears that the Dominion is definitely committed to the first two of these requirements; an easy money policy and a low rate of interest. It is possible that easy money is a necessary

companion to a low rate of interest. The general idea of Lord Keynes is to provide funds at a low cost to industry, so that industry may expand and provide full employment.

This all appears reasonable enough and while we do not profess to know much about these matters, it does seem to be equally reasonable to also make some provision for supplying funds at comparable rates to the people, so that they might be able to buy some of the goods which we hope industry may produce in such great quantities. This would apply especially to those semi-durable consumers' goods, which cost more than most Canadian citizens appear to have in cash at any particular point of time. There is an undoubted need for many such goods now, and the need will increase with the passage of time. While a shortage of replacement goods may exist for some years, it will be necessary to clear the market of these goods as rapidly as they are produced, or the economic system will again break down. To prevent such a collapse, it may be necessary to provide consumers with short term loans at reasonable interest rates. To many people, such items as a new watch, a suit of clothes, a radio or a new tire for an old car are all big items which require planning and sacrifice if their purchase is to be financed. If the terms and conditions of financing are such that the great mass of people in the lower levels of income are unable to purchase those goods in steady volume, then it does seem possible that loaning money to industry and to investors at the lowest conceivable rates of interest would not solve the problem.

As a matter of economic policy, as well as social policy and social equity, an equality in the maximum rates of interest for all classes of society could be accepted as an essential principle in the Banking Act.

It is not possible to make a complete survey of the costs of the Chartered Banks of Canada, but some general indications may be gathered from their published statements and from the fact that they pay regular dividends.

It may be accepted that the banks are well established across Canada with generally adequate staffs and facilities for doing business. A little more or a little less business will not materially affect their total cost of operation.

The Chartered Banks secure the major portion of their funds from deposits. This constitutes their outstanding advantage over all other lending institutions.

On February, 1944, the banks reported deposits of \$4,973,500,000. On the \$2,123,800,000 of time deposits (savings accounts) they pay interest twice a year at the rate of $1\frac{1}{2}$ per cent per annum. On the balance of \$2,849,700,000, including current accounts, they either pay no interest at all, or very little. It is fairly safe to assume that the banks pay less than $\frac{3}{4}$ of 1 per cent on the (approximately) five billion dollars which they borrow from the public by way of deposits. Of this sum, the banks have recently been content to loan nearly three billion dollars by purchasing the securities of various governments (mostly in Canada) and which generally yield less than 3 per cent. It is probable that the banks find these loans or advances profitable, or they would not have expanded this part of their business so rapidly during the past year. The next largest item consists of current loans of all types amounting to about a billion dollars and which in the main, probably yield from 3 per cent to 5 per cent. Loans at call are also made, usually at low rates of interest.

On the aggregate of this lending the banks are able to make substantial profits. Owing to the very low cost of money to the banks, through deposits, it would appear that the maximum rates of 6 per cent interest, or 6 per cent discount, proposed in section 91, subsection I, should provide the banks with a sufficiently high rate of profit on any loan. It is very possible that the banks of Canada could operate quite profitably if they secured an average return of 3 per cent on their five billion dollars of funds.

In section 91 of the Banking Act, two main points require attention.

It is maintained that there should be one maximum rate of interest or discount, which a bank may exact or collect, this rate to apply to all classes of society. Everyone will not pay this rate, as in actual practice most of the banks' assets are invested or loaned at less than half the proposed maximum. But this would be a maximum for all borrowers.

It is strongly contended, that the maximum rate adopted, and the actual rates applied by the banks should be stated clearly and openly, in such a way that no one may be deceived. The direct and only means of doing this is to state the real rate of interest.

In Bill 91, section 91, it is recommended:—

That subsection 1 be retained.

That subsection 2 be deleted, except that portion which deals with service charges and life insurance at cost.

That subsection 3 be retained.

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